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- Q3 2013 Momentive Specialty Chemicals Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2013 Momentive Specialty Chemical Earnings Conference Call. At this time all participants are in listen-only mode. Following the prepared remarks there will be a question and answer session.

(Operator Instructions)

And now I would like to turn the call over to the host of today's call, Mr. John Kompa from Momentive. Please proceed.

John Kompa - Momentive Specialty Chemicals - Chair - IR

Thank you, Stephanie. Good morning and welcome to Momentive's Specialty Chemicals' Third Quarter 2013 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 in finance and treasurer.

As a reminder this call is also being webcast and the slides that are 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 our latest earnings release.

Before we start, I'd like to review the 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 to be materially different from any future results or performance suggested by these expectations.

The slide you now see gives you more information on the assumptions and factors we consider in making those forward-looking statements. We can't guarantee the accuracy of any 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 measures and other associated disclosures are contained in our earnings release and on our website. Our earnings release and our recent SEC filings are also available on the internet at momentum.com.

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

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thanks, John. Turning to page four our third quarter revenues were \$1.25 billion, a 6% increase while segment EBITDA increased 4% to \$120 million. Segment EBITDA reflected higher volumes overall, productivity gains and strong results in our global forest products business.

Our epoxy, phenolic and coating resins segment EBITDA improved modestly as gains in oilfield and phenol specialty resins were offset by cyclicalities in base epoxy resins. We remain focused on investing our specialty portfolio while further enhancing our cost structure and maintaining a strong balance sheet with significant liquidity.

Our most recent growth expansions include a non-binding memo of understanding with Kanoria Chemicals and Industries Limited to form a formaldehyde and phenolic specialty resins joint venture in India. In addition we received board approval for a new forest products plant in Brazil. Both of these expansion projects will strengthen our presence in these important growth regions.

Finally we have demonstrated prudent management of our balance sheet and benefit from our substantial liquidity position with \$762 million of cash and available borrowings which provides flexibility for future growth projects.

Turning to slide five and our combined raw material index, you can see that raw materials generally moderated during the third quarter of 2013 but will remain volatile on a year-over-year basis.

In the first nine months of 2013 we saw a 6% increase in phenol and a 16% increase in methanol while urea declined 26%. Going forward we continue to remain vigilant on the pricing front to effectively manage raw material volatility.

Turning to slide six, while China and some of our other BRIC regions are recovering at different rates, long-term growth rates for these regions still represent some of the highest in the world. This long-term focus drives our value creation strategy as we have steadily worked to put assets in geographical regions that demonstrate long-term growth and warrant the incremental investment.

We have a strong position in the high-growth BRIC regions to include multiple sites in China, India, Brazil and Russia. And recently -- we opened our plant in Thailand.

In Latin America, MSC operates five different sites with our newest, Montenegro, opening in 2010. Our Montenegro plant is a world-class site and was a strong contributor to our third-quarter 2013 performance. And as I mentioned, our board has approved another forest products site in Brazil to support future growth.

The investment in this region has allowed us to maintain a 19% compound annual growth rate over the past 10 years. In addition, our new site in Chonburi, Thailand will support our medium term target of greater than 40% of our sales from BRIC/rest of the world region compared to about 25% today. Finally construction of our phenolic specialty resins JV in China remains on track and is expected to be operational by the year end.



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

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Thank you, Craig. Turning to our epoxy, phenolic and coating resins segment, third quarter 2013 revenue totaled \$806 million, a 7% increase on volume gains of 9% and a currency translation benefit of 2% offset by price mix declines of 4%.

Our quarterly segment EBITDA improved slightly compared to the prior year as modest gains in oilfield and phenolic specialty resins were offset by cyclical in base epoxy resins. Segment EBITDA in our oilfield business continues to improve as recent key customer wins are boosting volumes.

Turning to the next slide, in our forest products resins segment, sales total \$443 million, a 4% increase with volume gains of 3% and price mix improvement of 4% offset by negative currency translation of 4%. Segment EBITDA gains reflect improving volumes from North American housing demand in Latin America, as well as favorable mix, portfolio optimization and cost control initiatives.

We also posted a 160 basis point margin improvement on a year-over-year basis. We continue to have a favorable outlook for this segment as we anticipate North American and Latin American volumes to continue to grow in 2013, partially offset by slower demand from Europe.

Regarding our balance sheet, we continue to benefit from a significant liquidity position with cash plus borrowing ability under our credit facilities of \$762 million as of third quarter 2013, which provides flexibility for future growth projects.

Our capital expenditure investments totaled \$36 million in the third quarter of 2013. We now expect to invest approximately \$145 million in CapEx this year. Our net working capital totaled \$591 million at the end of the third quarter 2013, which was still a modest 12% of sales. Net working capital improved by \$37 million in 3Q '13 versus 3Q '12 despite increasing year-over-year volumes.

Finally, through our January, 2013 \$1.1 billion offering, we refinanced our credit facility, second lien notes and funded cash to the balance sheet. Additionally, in late March 2013, we entered into a new \$400 million asset based revolving loan facility. As a result of this activity, we now have no material debt maturities before 2018 and no financial maintenance covenants currently in effect.

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

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thanks, Bill. Turning to slide 12, we posted improved financial performance in the third quarter of 2013 with revenue increasing 6% and segment EBITDA increasing 4% to \$120 million. Our forest products business continued to benefit from strategic investments in BRIC regions, cost savings, and productivity initiatives as well as the gradual recovery of the North American housing market.

We continue to make strategic investments in our specialty portfolio in high growth geographies such as the recent board approval for a new forest products plant in Brazil. We remain focused on optimizing our cost structure through our productivity initiatives and achieving additional savings from the shared service agreement.

Finally our balance sheet is healthy and benefits from a substantial liquidity position with \$762 million of cash and available borrowings which provides flexibility for future growth projects.

Thank you for your continued interest in the company and I will now return the call to John.

John Kompa - *Momentive Specialty Chemicals - Chair - IR*

Thank you, Craig. Operator, if you would please open the line for questions and remind callers of those instructions.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Tariq Hamid with JPMorgan. Please proceed.

Tariq Hamid - JPMorgan - Analyst

You talked a little bit about base epoxies, there's been talk about obviously the continued market weakness and some people talk about capacity rationalization. Just maybe your thoughts about what you are seeing in the different geographies on base epoxies and has enough capacity come out to help pricing as you go into '14?

Craig Morrison - Momentive Specialty Chemicals - Chairman, President, CEO

Yes, well, first of all thanks for the question, Tariq. In general the primary driver of the margin compression really is generated out of Asia. That tends to be the lead factor. The split that's occurred between phenol in Asia versus the rest of the world really becomes a very significant driver because it creates a competitive cost advantage.

So right now we are clearly seeing margin compression and we are seeing pressure because it allows them to effectively export from Asia into North America and into Europe and that then creates a ripple effect which provides capacity for one region to affect the other two regions.

It's always difficult to know exactly when the cycle will reverse itself because it can be generated by a number of factors -- A, phenol closing the gap between Asia and the rest or some other action that affects the chain either capacity in [ECH], [BPA] or LER.

We are seeing capacity close relative to LER itself but that's only one of those factors and you will need one of those factors to essentially close and it will return pricing power the other way. But right now we still will see a long position in Asia, we still see a significant gap between phenol pricing in Asia and the rest of the world, and so, that continues to be an ongoing concern as we enter '14.

Tariq Hamid - JPMorgan - Analyst

Great. And then let's turn over to the forest product resin side, if you look at some of the investments that you have made in that segment, should we expect, even after [kind of running here in the] 50s for a year now, do you expect sort of an uptick as we head into '14 and '15 as those investments take hold or is it going to be a little bit slower process than that?

Craig Morrison - Momentive Specialty Chemicals - Chairman, President, CEO

No, I think we have some attractive opportunities that we are looking at relative to the forest products business both in North American capacity and Latin American capacity. So that's an ongoing process that we review but we may see a bit of an accelerated investment rate because we have some key product lines that are becoming sold out and we see continued expansion in growth.

Part of it relates to North America becoming more attractive for downstream industries as the shale gas expands and the reason that becomes relevant is -- our formaldehyde business goes downstream in the MBI, BDO and some of the other product lines and they are being positively influenced from the regional standpoint as industry rebound, as the shale gas provides cheaper feed stock. So we definitely see opportunities and where there's an adequate return on investment, we look to invest in those.



Tariq Hamid - *JPMorgan - Analyst*

Right, and then just one last one from me before I turn it over to -- just on the proppants business you sort of mentioned sort of modest gains. Is that year-over-year or is that quarter-over-quarter? I mean are we starting to see some sequential improvement proppants?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes, I mean, it's a bigger year-over-year gain, very significant gain year-over-year and a nice gain quarter-over-quarter are really driven at this point by very, very significant volume growth.

We've rolled out new products like our Oil Plus, which is more focused on we gas and oil reserves that has been extremely successful for us and it's also a benefit of blending technologies across both MBM and MSC. So, it's a nice example of being able to leverage technologies across our various companies.

Additionally, I think we have superior technical service capability in the marketplace which is also allowing us to win bids against competitors. So, we still see margins haven't returned to historical highs but this continues to be an extremely attractive business and volumes are starting to return and that might give us leverage going forward.

Tariq Hamid - *JPMorgan - Analyst*

Great. Thank you very much.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

Operator

Your next question comes from the line Brian Chavarria with Credit Suisse. Please proceed.

Brian Chavarria - *Credit Suisse - Analyst*

Good morning, gentlemen.

Unidentified Company Representative

Hey, Ryan.

Unidentified Company Representative

Good morning, Ryan.

Brian Chavarria - *Credit Suisse - Analyst*

I just want to follow up on a couple of Tariq's questions there, you're talking about in the proppant side, gaining some volumes, are you guys taking share from other people or is it just an overall increase in the market that you're seeing there?



Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

We see both. The market is starting to return as pricing is firming up a little bit. It's certainly not bad to the record highs nor would we expect it to be with shale gas as prevalent as it is, but it is starting to firm up. We are growing as the market grows, but I think we also have superior product technology and tech service capability. And ultimately, I think over an extended period of time that will bear fruit and that's starting to happen.

Brian Chavarria - *Credit Suisse - Analyst*

Okay. Thank you. And I don't know if it's too early yet but as we look to 2014 in terms of CapEx it certainly seems like there are a lot of opportunities out there as you discussed, how we should be kind thinking about that directionally at least.

Unidentified Company Representative

Yes, I think directionally you should expect it to increase. I think we do see a lot of opportunities. Obviously, we have -- as Craig said, we've approved some projects this year. So, I think we would expect to see it go up.

Brian Chavarria - *Credit Suisse - Analyst*

Okay. And then last one for me, the Forest Products business, cite some continued weakness in Europe and some Asia just -- can you talk about where you see that kind of developing there? Where do we start seeing a turning point in some of those regions?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes, I think when you look at Europe, we actually had very significant growth in the EBITDA on a year-over-year and on a quarter-over-quarter basis and that's largely due -- not due to the market returning necessarily but our footprint has been dramatically changed and our cost structure has changed dramatically.

So, as it's slowly and we think it will slowly recover, and I was out with a customer the other night at dinner who has a large footprint in North America but also a significant footprint in Europe and they were talking about starting to invest, to grow in Europe because they see the need for things like OSB and plywood.

It is a different market over there. It is more of industry and commercially based versus housing like it is in North America. So, they are starting to see a recovery there largely in Northern Europe, they're not in Southern Europe. They're in U.K., Germany, Benelux. So, they're starting to see some recovery, but I wouldn't call it a robust market yet by any means.

In Asia, there is weakness. We're more in New Zealand and in Australia. We do export into other parts of Asia but we divested our Malaysia business because we didn't consider it to be an attractive region with all the capacity.

And that still continues to suffer from really a slower economy in Australia if it's not raw material based, it's almost a bimodal sort of economy there and that continues to be weak. You know, we may start to see that recover a little bit in '14 but we don't see a robust economy, nor is it an overly disproportionately large part of our Forest Products business.

Brian Chavarria - *Credit Suisse - Analyst*

Okay, appreciate it, thank you very much.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

Operator

Your next question comes from the line of Adam Goodwin with Goldman Sachs. Please proceed.

Adam Goodwin - *Goldman Sachs - Analyst*

Hi. Thank you for taking my questions.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Hi, Adam.

Adam Goodwin - *Goldman Sachs - Analyst*

Hi. My first question pertains to the epoxies business, I think Dow on a recent call said that over time they think that the downstream part of the chain could potentially commoditize, could you share thoughts around that and what if any barriers to entry do you think would exist further downstream in the specialty part of this business?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes, I mean, I think it's like anything. If you continue to innovate, I think you have the opportunity to differentiate and I think the challenge is -- it's not like there is one unified specialty product line, there are multiple product lines. Actually, I think there's very significant growth opportunities, as composite applications continue to expand into automotive and other materials into things like aerospace, et cetera. So, I don't see it as one unified commoditization.

I do think there's a normal life -- product life cycle that occurs, but if you continue to generate new products, new categories and segments that you're moving into, you'll have a natural distribution across that product life cycle some more maturing and commodity becomes -- commoditization becomes a challenge.

Others are just beginning on the life cycle, and where you have a significant ability for margin expansion. So, I personally would not discuss it in terms of one big category. I think there'll be a range of opportunities.

I also think as things commoditize, there's opportunities to take cost out, there's opportunities to reformulate, there's opportunities to drive process improvement through scale that could also allow you to enhance margins. So, that's not necessarily a negative. We have some product lines that are commoditized but they have EBITDA margins are well over 20%. So, it's how you manage in that product life cycle.

Adam Goodwin - *Goldman Sachs - Analyst*

That's very helpful. And then, as you look at your upstream base liquid epoxy resins business might you have the opportunity to direct more of your liquid resins further down stream in the specialty part of the chain and have you ever had the interest in maybe moving further down into the type of formulated products that competitors like Huntsman are more involved in?



Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes, well, as far as moving downstream, strategically we always assess opportunities to continue downstream or upstream. But that's something that wouldn't common on. We do assess those strategically but we wouldn't comment on it. I'm sorry, the first part of your -- I forgot the first part of your question.

Adam Goodwin - *Goldman Sachs - Analyst*

I think that you currently consume, call it 30 to 40% of your liquid epoxies in the specialty part of the business, could you have the opportunity to move that up higher?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes, thanks. That is something that we do look to do as we grow. We think the best use of our upstream capacity is ultimately to create additional value by migrating our specialty portfolio which naturally expands you margins and we think it gives us the best return on those assets. So we do look to do that, and that generally, naturally occurs over time. But it's not -- it's usually -- unless you have you a breakthrough product, it's not quantum leap in absorption of that capacity. It tends to be a smaller incremental migration in that direction.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. And then, my last question, so you're sitting on a sizeable amount of cash, you have an undrawn revolver, and I think you've said in the past that you have a goal of taking down leverage over time. Given the high coupons on some of your bonds and the fact that at least one of them is now trading below par, how do you think about potentially buying debt that as a use of cash?

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Yes, I think it certainly, yes, we do still continue to have the goal to delever over time. I think we continually assess our capital structure in terms of looking for opportunities. We have no definitive plans at this point and also to Craig's point, we're obviously very cognizant of maintaining liquidity for growth opportunities. So nothing specific at this point but, yes, we're continuing to evaluate our balance sheet.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. Thanks a lot.

Unidentified Company Representative

Thank you.

Operator

Your next question comes from the line of Roger Spitz with Bank of America. Please proceed.

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

Thanks. Good morning, guys.



Unidentified Company Representative

Morning.

Unidentified Company Representative

Morning, Roger.

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

On base epoxy resins Q3 EBITDA, can you give any sense of whether sequentially it was up, down or flat?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes. Sequentially, it was flat.

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

Okay. And is that sort of a positive number or a negative number or can you give us any sense of that?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

It had a minor positive, but it's a low point when you go through cycles. We think it's kind of flattening out as you can see by the sequential sort of number, but very, very low in terms of positive aspects.

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

I know you currently don't like doing this, but can you give us any very, very general sense of how big your base epoxy resin businesses to your total business whether it would be sales or EBITDA or however you might like to characterize it?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

I mean it's a sizeable business for us but we generally don't characterize the very specifics as well as it swings very significantly both in EBITDA, revenue sales numbers. So, it's a significant but not an overwhelming portion of the portfolio but we don't break our portfolio down for competitive reasons to a level of detail.

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

Okay. In Q4, do you expect to see this Q4 the kind of seasonability in the epoxy phenolic and coating resin segments that you saw last year or are there certain other things that are going on either this year or last year that looking back last year isn't necessarily indicative of this year?

Unidentified Company Representative

We would anticipate this year to be a traditional sort of seasonality effect. In these business tends to be a little slower as you have western holidays, Thanksgiving, Christmas, et cetera, that certainly impacts from a seasonal standpoint. You also have some other seasonal factors like inclement



weather for some of the construction in Northern Europe and the US that might affect sales. So, we would anticipate a normal seasonality for this year.

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

Got it. Also, this year SGA is -- looks like it's picked up into the low 90s quarter, a million dollars off from what looked like last year the sort of high 70, low 80s. Is there something we should think about that's going on there?

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Yes. I think a couple of factors, we had some relatively significant pension increases in Europe really driven by the discount rate. And we actually quite frankly see some of that reversing as we move forward into '14 but that was a significant piece.

And then piece two would be incentive comp just in terms of where we were last year, where we are this year, which again obviously fluctuates year on year depending on results.

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

All right. Thank you very much.

Unidentified Company Representative

Thank you.

Operator

Your next question comes from the line of Bill Hoffmann with RBC Capital Markets. Please proceed.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Thanks and good morning.

Unidentified Company Representative

Good morning.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Can you talk -- I wanted to [kill] the epoxies business but could you just talk a little bit further about your thoughts on industry consolidation or what do you think it is really going to take to get this business back in together, especially in the context of what we consider to be pretty slow economic growth for both the US, China and Europe?



Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Well, yes, I mean, any time I think you have businesses going through cycles, people will review their strategic options and Dow's been very public about making some comments about assessing their portfolio. So, certainly that could happen. The normally cyclical also drives it, which it tends to be, as I mentioned earlier, [Asian] based is the largest driver of the major upticks we've seen over the last ten plus years or downturns.

I see no reason to believe that over a longer period of time the world also once again, returning more into balance. Again, I think one of the major aspects about the base epoxies is you only need it to occur one of three or four places in the value chain or way upstream with the key role in the key roles like [UCH] or down into the [LER] and suddenly the pricing leverage reverses itself.

So, obviously, I can't accurately project what all competitors are going to do about consolidation. Some have talked about it, it certainly may occur but we can't run our business just waiting for that to occur and like everybody else we review our strategic options on a routine basis but have nothing to announce at this time.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay. So, is it something that your board or your owners I think is the critical component to getting things moving forward there in that business?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Well, I think like anything, seeing consolidation where excess capacity boards would usually consider out of positive and I think they would view it as a positive here. But again, that's something they're not going to control what other competitors do.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay. Thank you. And then, just to -- back to the -- also the oilfield proppants side of the business, part of their conversation before has been a shift toward more (inaudible) you mentioned the Oil Plus product. I just wonder if you could give us a sense of how much progress you've made moving into those markets, even on a percentage sale, is it sort of 80-20 in the proppants business?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes. It's been a significant shift that has far exceeded our initial expectations. We have surpassed in year one what we had projected the product to be, significant surpassed three to four years out. So it's moving at a very significant rate. Again I give that team a tremendous amount of credit for the innovation and the blending of technologies and other things. Order of magnitude right now is probably around the 75 to 25 split right now, but moving fairly aggressive north of that.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Any thoughts for the top line growth in that business next year, just given the opportunity in the (inaudible) side?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes. I mean we consider it to be a very strong growth potential moving forward. But we don't get forward-looking information on specific segments like that.



Bill Hoffmann - *RBC Capital Markets - Analyst*

Okay. Thank you. And then just a question for Bill. Is the plant in Brazil and (inaudible), could you give us some context on cash flow [incremental] for those activities next year?

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Yes. I don't want to throw out a specific number. But it's certainly south of \$50 million as you think about total investment.

Bill Hoffmann - *RBC Capital Markets - Analyst*

And that's for the both of them?

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Yes.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

The (inaudible) is very minor amounts of money.

Bill Hoffmann - *RBC Capital Markets - Analyst*

Yes. Okay. Great. Thank you.

Operator

Your next question comes from the line of Brian Lelli with Barclays. Please proceed.

Brian Lelli - *Barclays Capital - Analyst*

Hey, good morning, guys. How are you?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Hey, Brian.

Brian Lelli - *Barclays Capital - Analyst*

Just a couple of quick ones from me, a lot of mine have been asked.

If you wouldn't mind could you just walk high level what some of those buckets are in the other adjustments? Again there are a lot of things in the footnote that are sort of put together there just to understand what is cash versus non-cash in your EBITDA adjustments.



Unidentified Company Representative

Yes. Things like legacy pension, some of the retention plans that we had in place. So I guess it's a mixture Brian of cash and non-cash.

Brian Lelli - Barclays Capital - Analyst

I don't know. Maybe that year-to-date \$43 million I believe it is, is there some higher level percentage that we should think about? Just from a modeling perspective.

Unidentified Company Representative

Yes. It's about 50/50.

Brian Lelli - Barclays Capital - Analyst

Okay. Again just another housekeeping question, working capital, should we expect that that seasonal 4Q reversal happens again? You showed it obviously in the slides. Is there a magnitude to think about some of the liquidity standpoints?

Bill Carter - Momentive Specialty Chemicals - EVP, CFO

Yes. I think you should expect for it to look similar to prior years.

Brian Lelli - Barclays Capital - Analyst

Okay. I know these are inconsequential in the magnitude of the balance sheet. But some of the smaller junior debt security some of which are Australian facility due in 2014 for instance, how do you think about dealing with those? Is that sort of a paid in cash retirement or is it extended? Again we don't talk about those a lot. But just from a modeling standpoint.

Bill Carter - Momentive Specialty Chemicals - EVP, CFO

Yes. We'll probably look to extend those similar to what we've done in the past.

Brian Lelli - Barclays Capital - Analyst

Okay. Maybe one last one from the -- this maybe goes back to what Adam asked before, again, thinking about the balance sheet, those 8 7/8 notes again the first maturity also the first bond that becomes callable maybe just high level. Do you have any thoughts around the cost of refinancing versus the benefit of extending maturities at this point given where the market is and where rates are?

Bill Carter - Momentive Specialty Chemicals - EVP, CFO

No, I don't think -- as I've said we continue to evaluate things but that's not something we'd want to speculate on in this call.

Brian Lelli - *Barclays Capital - Analyst*

Okay. And then one last one for me, I apologize. Other than the capex number in 2014 which we can appreciate is a bit of an unknown at this point, is there any other high level numbers we should think about? Maybe retention or other small cash expenses that we could put into our models at this point?

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

I don't think we would expect any other unusual items. I think as you look at many of our trends, whether it's cash, taxes and payables and so forth, it usually assumes the same trends in '14.

Brian Lelli - *Barclays Capital - Analyst*

Okay. All right, guys. Thanks for the time.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

Operator

(Operator Instructions). Your next question comes from the line of Jordan Hollander with Deutsche Bank. Please proceed.

Jordan Hollander - *Deutsche Bank - Analyst*

Hey, guys. Most of mine have been answered. But just to follow up again on the base Epoxy business; obviously it sounds like a specialty business in that segment are kind of growing well.

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Jordan, could you speak up just a little? We're having a little trouble hearing you.

Jordan Hollander - *Deutsche Bank - Analyst*

Yes. Sure. Just on the base Epoxy business, it sounds like the specialty businesses are performing pretty well. On the base Epoxy just trying to get a hand on anything that seems to be stabilizing there. I just wanted to see versus where you were at the end of the quarter, is pricing sort of stabilizing? Is it getting worse? Has it bottomed and it's ticking up a bit or are we just expecting it to go sideways? Just any color on that side of the --

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Well, right now, it's following a more stable situation. Obviously that could change in either direction relatively quickly because this is a volatile market where we see where it tightens, it can go up pretty fast. And some events happen in the other direction and drop.

But right now if we just talk about current environment I'd say it's fairly stable. We're on the lower end of the cycle now.

Jordan Hollander - *Deutsche Bank - Analyst*

Okay, guys. That was it for me. Thanks.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

Operator

Your next question comes from the line of [Marianna Cashmere] with Nomura Asset Management. Please proceed.

Marianna Cashmere - *Nomura Asset Management - Analyst*

Hi. Also to follow up on Epoxy, what was the volume for Epoxy year-over-year sequentially? Could you quantify that change?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes. We don't give out specific numbers. On a year-over-year basis it was slightly weaker. And sequentially it was slightly stronger.

Marianna Cashmere - *Nomura Asset Management - Analyst*

Okay. And then just regarding Q4 you discussed seasonality patterns that you expect to be roughly in line. But can you generally discuss the tone of the market you are in as you see those now which market is more positive than the others and which ones are perhaps not performing as well?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

I think when you -- again the seasonality -- I am not talking about from a seasonality perspective. I am just talking about the general feel of the market because like we said seasonally fourth quarter tends to be a little weaker due to specific holidays weather etcetera.

But just generally the tone of the market I would say all feels like it's strengthening both for us because of innovation we're bringing to the market but also we believe are firming up and also with the [wet gas] becoming more available. We consider that a positive.

As we talk about extensively on the call already the base Epoxy resins are more at their low point of the cycle. We don't see immediate relief for that rolling in the 2014. But you generally don't see it until all of a sudden it arrives and then you'll see it start to strengthen.

I think we have a very good team that runs that business and are very astute at watching for signs in the market to move on pricing volume, et cetera. But I would say it's at its weaker point in the market.

When you look at other markets like especially Epoxy, a modest improvement say with our (inaudible) business, I wouldn't call it overwhelmingly strong. But it's modestly improving.

Phenolic specialty resins have been rather strong for us for now for a significant period of time because I think we're well positioned in North America and in Germany where -- which tends to be fairly positive markets in things like automotive, et cetera, so that continues to do well.



And we've shown modest trends in our coatings and resins business which we call [MDP] so that's the monomers, the dispersions, the acrylics, the powder coatings, etcetera. And that continues to be a very modest improvement from a market standpoint.

And as far as products we have a very, very robust outlook on in terms we think we're well-positioned as a clear industry leader in North America and a global basis leading technologies and tech service.

And we think with the ongoing recovery in North America, well-positioned in Latin America, which is the fastest -- [fastest] growth rate in the world in terms of greater fees growing. We consider that to be a good outlook going into 2014.

Marianna Cashmere - *Nomura Asset Management - Analyst*

Okay. And also looking at that chart was the net working capital. Last year, we saw a significant drop in working capital from Q3 to Q4. Are we going to see a similar magnitude of working capital reduction which is seasonal?

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Yes. I think we'll see a seasonal decline in working capital. Our volumes we expect to be a little stronger in Q4 this year than Q4 of last year. So I don't think it will be as big a magnitude but we expect to see a decline.

Marianna Cashmere - *Nomura Asset Management - Analyst*

Okay. So likely strong free cash flow generation in Q4 then.

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Yes.

Marianna Cashmere - *Nomura Asset Management - Analyst*

Okay. All right. Thank you.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

Operator

Your next question comes from the line of James Finnerty with Citi. Please proceed.

James Finnerty - *Citigroup - Analyst*

Hi. Good morning.



Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Good morning.

James Finnerty - *Citigroup - Analyst*

Just a bigger picture question in base Epoxy. The capacity in China, part of that is it due to the excess chlorine supply in China and capacity in the base Epoxy is being built to utilize that excess chlorine?

Bill Carter - *Momentive Specialty Chemicals - EVP, CFO*

Yes. I think that is definitely a factor. That has influenced some of the decision-making in China and we agree with that hypothesis.

James Finnerty - *Citigroup - Analyst*

You mentioned the cyclical and phenol impacting the business. But would the new Chinese capacity potentially mean that the trough might last longer than you have expected?

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

It certainly could. These things are always difficult to project. And again the reason is all you need is a tightening up in one place of the value chain and your pricing leverage (inadubiel).

So if you look at one of the last times that it occurred it was due to waste water treatment standards changing and dramatically impacting ECH availability because the governments started shutting down ECH facilities due to waste water regulations.

James Finnerty - *Citigroup - Analyst*

Again in China.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

In China I am talking about.

James Finnerty - *Citigroup - Analyst*

Okay.

Craig Morrison - *Momentive Specialty Chemicals - Chairman, President, CEO*

So that created a major shift. A second shift before that occurred was a sudden tightening of phenol pricing between North America, Europe and Asia which went from being almost directly on top of each other in terms of a pricing long chart to a very wide spread in the favor of Asia and again can reverse itself through a number of different factors.

So it's not like you need everything aligned. If you get one place in the value chain tightening it allows you to move aggressively all the way down through LER.



And so, it's difficult to project which of those might occur, when it could occur, whether it could occur. It's certainly something lost. But could there be one scenario that people would hypothesize that it might be more of an extended downturn? That's a legitimate scenario for people to discuss. I'd say there are other scenarios where it could flip fairly fast.

James Finnerty - Citigroup - Analyst

Great. Thank you. That's very helpful.

Craig Morrison - Momentive Specialty Chemicals - Chairman, President, CEO

Thank you.

Operator

We have no further questions in the queue. I would now like to turn the call over to Mr. Craig Morrison, CEO, for closing remarks. Please proceed.

Craig Morrison - Momentive Specialty Chemicals - Chairman, President, CEO

Well, as always, I'd like to thank you for participating in the call and in your interest in the company. I'm going to look forward to updating you on our next quarterly call. Thank you.

Operator

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

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