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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2012 Momentive Specialty Chemicals Earnings Conference Call. My name is Grant and I will be your operator for today.

At this time all participants are in a listen-only mode. We will conduct a question and answer session toward the end of the session.

(Operator Instructions)

As a reminder, this call is being recorded for replay purposes. And now, I would like to turn the call over to Mr. John Kompa with Momentive. Please proceed.

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

Thank you, Grant. Good morning, and welcome to Momentive Specialty Chemicals' second quarter 2012 earnings conference call. Leading today's call will be Craig Morrison, Chairman, President and CEO; Bill Carter, Executive Vice President and Chief Financial Officer; and George Knight, Senior Vice President, Finance and Treasurer.

As a reminder, this call is also being webcast and the slides referenced in today's conference call are available through the momentive.com website under the Investor Relations section of Momentive Specialty Chemicals. A replay of this call will be available for three weeks and the replay dial-in information is contained in Momentive Specialty Chemicals' second quarter 2012 earnings release.

Before we start, I'd like to read 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 forecast or estimates, and we undertake no obligation to update any forward-looking statements during the quarter except as otherwise required by law. For more information on our risk factors, please see our earnings press release and our SEC filings.

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

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

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

Thanks, John. And turning to page 4, in the second quarter of 2012 revenues were \$1.3 billion compared to \$1.4 billion in the prior year, as the decline reflected lower volumes from weakening demand in certain key end-use markets.

Segment EBITDA totaled \$145 million, compared to \$189 million in the prior year. Second quarter 2012 was impacted by continued economic volatility in Europe and Asia and a shift in product mix to the lower volumes in our oilfield and specialty epoxy businesses. Our earnings decline was partially offset by improved performance in Versatic Acids and Derivatives and our North American and Latin American forest products businesses.

Our BRIC investment strategy continues to progress as we began operations of our new Versatic Acid and Derivatives joint venture in China in the second quarter of 2012. Development of our phenolic specialty resins joint venture with UPC Technology Corporation will further enhance our growth prospects in Asia and is expected to become operational in early 2013.

We continue to realize savings from the combination with Momentive Performance Materials as planned, and we achieved \$12 million in savings from the shared services agreement during the first half. Optimizing our cost and cash position continues to be a priority for the Company to help offset weaker end-use markets and macroeconomic volatility.

Regarding our liquidity position, we had \$602 million in cash and available borrowings as of quarter end, and we're in compliance with all financial covenants that govern our senior secured credit facilities and indentures.

Turning to slide 5, you can see an overview of our financials. As noted, our second quarter 2012 sales decreased 12% due to softer volumes, while segment EBITDA and operating income reflected lower demand and a shift in product mix from declines in several of our specialty businesses.

As we've said before, the inherent earnings potential in each of these specialty businesses remain intact due to the proprietary technology and secular growth trends. And while we wait for certain end-use markets to recover, we continue to focus on our cost structure and optimizing our cash position.

Turning to slide 6 and our combined raw material index, you can see that raw materials generally moderating during the second quarter of 2012 will remain higher on a year-over-year basis. In the first half of 2012, we saw increases in each of our three largest raw materials ranging from 1% to 31% compared to the prior year.

We continue to remain vigilant on the pricing front to effectively manage raw material volatility. Despite this volatility, we've demonstrated our long-term ability to drive pricing actions in a wide variety of market conditions.

Turning to slide 7, you can see our segment sales and segment EBITDA for the second quarter of 2012. In our Epoxy, Phenolic and Coating Resins segment, sales declined by \$176 million or 18%. Volume decreases negatively impacted sales by \$104 million as volumes declined primarily in our base epoxy, specialty epoxy and oilfield businesses, partially offset by improvement in our Versatic business.

Pricing had a negative impact of \$22 million due primarily to the impact of price declines in our base epoxy business. Segment EBITDA decreased by \$56 million or 36%

In our Forest Products Resins segment, second quarter 2012 sales declined slightly by \$3 million or 1%. Higher raw material prices passed through to customers and pricing actions led to overall pricing increases of \$31 million. Volume declines primarily in our European Forest Products business negatively impacted sales by \$10 million. Segment EBITDA increased by \$6 million or 12% supported by our pricing actions and continued demand improvement in our Forest Products businesses in the Americas.

Turning to slide 8, we've highlighted the negative trend impacting our Oilfield business. You can see the dramatic decline in rig counts both on a longer-term basis and the more recent year-over-year perspective showing a 41% decline.

Declining rig counts reflect lower oil and gas exploration due to the economic volatility, which ultimately impacts our customers and our resin coated proppant business. We believe this is a short-term trend as the promise of shale gas, and the horizontal drilling methods used to extract that gas has tremendous upside for our proppants business long-term.

Turning to slide 9, you can see the forecast for a gradual increase in North America natural gas prices. If the trend occurs as projected, the implied pricing increase would be enough to stimulate drilling. The current decline in rig count will inevitably drive up the price of natural gas, which would then increase demand for our proppants and other product lines within the Oilfield business unit.

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

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

Thank you, Craig. Turning to our Epoxy, Phenolic and Coating Resins segment, second quarter 2012 revenue totaled \$796 million, decreasing 18% versus prior year with volume, price mix and currency translation declines of 11%, 2% and 5% respectively. Quarterly segment EBITDA declined by 36% versus the prior year as our results reflected lower volumes and negative product mix in our specialty epoxy, base epoxy and Oilfield Resins businesses.

As Craig said, our Oilfield Resin business remains a long-term growth platform for us despite the current low natural gas prices and soft drilling demand. Our Phenolic Specialty resins business also reflected lower results in Europe while our Versatic Acids business improved due to pricing gains.

Turning to the next slide, in our Forest Products Resins segment, sales decreased slightly to \$463 million with price mix gains of 6% offset by negative currency translation of 5% and volume declines of 2%. European volumes continued to be challenged although productivity actions are driving improved regional profitability.

For example, while our second quarter volumes declined by double digits year-over-year, segment EBITDA increased slightly due to improved efficiencies and a lower cost structure with the closure of our plant in Germany. In the second quarter of 2012 we posted a 12% gain in segment EBITDA supported by strong results in our North American and Latin American businesses and our productivity initiatives, which we had discussed over the last several years.

Regarding our balance sheet, we continued to benefit from a strong liquidity position with cash plus borrowing availability under our credit facilities of \$602 million as of June 30th. Our capital expenditure investments totaled \$28 million in the second quarter of 2012. We continue to anticipate \$145 million to \$155 million in CapEx for 2012 in support of numerous growth opportunities.

Our net working capital increased due to improved volumes and higher raw material costs as Craig noted in the first half of 2012. Net working capital at the end of the second quarter as a percentage of LTM net sales still remained a modest 13%. We anticipate working capital to decline in the second half as we continue to take aggressive actions to drive this lower as well as the benefit of normal seasonality.



Let me turn to Craig -- call over to Craig to wrap up.

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

Thanks, Bill. Turning to page 15, looking at our segment EBITDA, the second quarter of 2012 continues to reflect negative product mix and the economic slowdown in Europe and Asia, partially offset by improved results from portions of our Forest Products and Versatic Acids businesses.

We continued to demonstrate our commitment to global growth as we began operations of our new Versatic plant in the quarter while keeping a steady focus on our cost reduction activities. We achieved \$12 million in savings in the first half of 2012 under the shared services agreement with MPM, and these actions are progressing as planned.

We continue to prudently manage our liquidity, and we're pleased to successfully complete our refinancing activities earlier this year, which further reinforced our long-date maturity profile. While we continue to anticipate volatile market conditions for the second half of the year, we are well positioned for the eventual market recovery.

Thank you for your continued interest in the Company, and I will now turn the call to John Kompa.

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

Thank you, Craig. Grant, we'd now like to open the line for questions, if you could provide those instructions to the callers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Tarek Hamid from JPMorgan. Please go ahead.

Tarek Hamid - *JPMorgan - Analyst*

Good morning.

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

Hi, Tarek. How are you?

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

Hi, Tarek.

Tarek Hamid - *JPMorgan - Analyst*

Very good. Can you guys talk a little bit of volumes of epoxies -- 11% sort of your volume declines, could maybe talk about what that number roughly is like in Asia and Europe versus North America even just sort of directionally.



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

Well, when you look at the actual volume declines, obviously, there's two components there. You have the more Specialty Segment and you have the Base Epoxy Resin business.

The decline was slightly greater in the Specialty Segment business largely driven by policies within China on wind energy. And therefore, that segment is particularly affected, the specialty, and that's particularly Asia-related. We remain quite strong in the Americas, and Europe has also been doing okay in that business.

When you look at the Base Epoxy business, which was slightly less of a decline, that you would find more Asian based as well but also European based as our North American segment remained quite healthy.

Tarek Hamid - *JPMorgan - Analyst*

That's helpful. And then, on the oilfield resins, you talked about sort of the rig count factor. But, any sort of impact with customer inventory levels? Are you seeing people try to -- your customers destock their inventories in oilfield resins, or are they generally trying to stay stable on their inventories as far as you can tell?

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

Yes. We have limited visibility there. You know, we believe it's primarily driven by true demand that as the rig count just falls because the economics really don't warrant the drilling when you have natural gas so low in North America that it really is a true demand falloff.

Likewise, though, as you can see in one of the charts later in my presentation, is a natural projection that the price will come back up because as they stop drilling, it will pull down inventories and eventually start to fall, force the price back up. The secondary factor you have is that demand is increasing for natural gas as people are shifting to that as a fuel source.

So inevitably, we do believe it will come back. But I think the primary driver here is not destocking but true demand falloff, which we believe inevitably will return the long-term picture for shale gas is extremely positive.

Tarek Hamid - *JPMorgan - Analyst*

Great. And then, just finally, our forest products resins -- looks like margin is essentially up 130 basis points year-over-year. How much of that is sort of productivity gains versus just reformulations and just better demand in North America?

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

Well, it really is a number of factors and you listed a couple of them. One is we've aggressively gone after costs, shutting down various plants both in the US and in Europe -- Leuna in Europe, Germany being one of the most recent. We also divested our Malaysian business which is lower EBITDA margin business. So, we think we're taking the right actions to optimize the EBITDA percent.

So there is the productivity piece, there's the shifting of the portfolio piece and then the third piece is we really are focusing on reformulation. We really are focusing on new product development, and we've always had a strong focus on price for gaining the value we create for our customers.

So it really is a wide variety of actions, not any one single action that has helped to continue to drive that business. You know, we'll be close to record profitability this year, and that's on a market in the US of 650,000 to 700,000 housing starts versus an annual peak in prior years around 2005, 2006 of 1.7 million to 1.8 million.



So, we consider it to be a lot of upside for this business as we optimize the cost structure. And we still think there's significant volume to come back yet.

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

Yes, Tarek, I think you can think about maybe a 60/40 -- 60% benefit from price and reformulation, 40% from productivity programs and [cost out].

Tarek Hamid - *JPMorgan - Analyst*

Great. Thank you. I guess I'll turn it over now.

Operator

Thank you for your question there. Our next question comes from the line of Bill Hoffmann from RBC Capital. Please proceed.

William Hoffmann - *RBC Capital Markets - Analyst*

Yes. Thanks. Good morning.

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

Hi, Bill.

William Hoffmann - *RBC Capital Markets - Analyst*

Craig, I wonder if you can talk a little bit about -- you mentioned the oilfield services trend. I just wonder, as we've seen natural gas bounce back a little bit here, whether there's been any shift in trend as these guys look for the back half of the year, or are they kind of steady where they are?

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

Yes. Right now we're not anticipating a large gain in the second half of the year due to where the inventories are. We may see somewhat of a pickup due to share gain for us as we take certain actions, but we don't see the market so much coming back in '12 as rather it's a 2013 and beyond sort of trend.

Again, we're taking all the cost actions we do in any of our businesses to optimize any time there's a slowdown in the market. But we don't anticipate a strong snapback so much in the second half of '12 as rather an increase as the inventories draw down moving into '13 and beyond.

William Hoffmann - *RBC Capital Markets - Analyst*

Okay. Thanks. And then, sort of similar theory, when you look at your Versatic business and the Base Epoxy Resins business here for the back half of the year, you know, just given what our economists are saying -- things are pretty flat here. Is your expectation that things are kind of going to go sideways here for the next six months or so given what's going on?

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

Yes. I would agree with that assessment. We are not predicating our actions on a bounce-back in the second half of 2012. We don't see it conversely falling off a cliff. We see it, as you would say, moving sideways.

You know, I really think that until the US election is over and a number of things resolved in Europe, you're going to have trouble in the back half making any real progress. So we are not predicating our projections or actions based on a second half recovery.

William Hoffmann - *RBC Capital Markets - Analyst*

Okay. Thanks. And then just last question, with the joint ventures, what's the -- you mentioned some of the capital spend here. Does that include the investments in the joint ventures as you're looking to finish up the phenolics line especially? I guess China's already finished.

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

Yes. Those investments are included in the CapEx numbers we talk about.

William Hoffmann - *RBC Capital Markets - Analyst*

Okay. And then, just -- can you talk a little bit about cash flow potential out of those two joint ventures? What are you looking at, at this point?

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

Yes. I think it will be -- as you know, in the Versatic JV, that is just starting up. In the JV we talked about phenolics. That is still in its formative stages. So I don't think we'll see significant cash flow in 2012. That will be more of a 2013 and beyond opportunity.

William Hoffmann - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

Thank you for your question. Our next question comes from the line of Brian Chavarria from Credit Suisse. Please go ahead.

Brian Chavarria - *Credit Suisse - Analyst*

Good morning, gentlemen. I just wanted to talk to you I guess a little bit on liquidity and cash flow. What do you guys tend to view as the minimum level of liquidity here with running the business?

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

I -- we've typically not disclosed minimums. I would tell you in terms of the amount of liquidity we have today, we think we have very, very substantial liquidity. So we don't believe today we're near a minimum. And we think we have strong liquidity going forward.



Brian Chavarria - *Credit Suisse - Analyst*

Yes. I certainly agree with that. You guys are currently in a good spot at this point. And then, in terms of CapEx, you know, is there - you know, it seems like a pretty big second half spend. Is there any room to cut that potentially or is that pretty firm at this point?

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

I think certainly we will look for opportunities, just as Craig said, as we evaluate kind of the second half. And it would appear it's going to be, kind of for the question we answered just a few moments ago, a relatively go sideways second half.

I think we'll continue to look for opportunities for (inaudible) CapEx where we don't think the growth will come as quickly as we thought and have opportunities to delay or simply look at the overall program. So, I would say I think we believe there are opportunities. We may come in a little below our estimates at this point. We're not calling that, but we'll continue to evaluate.

Brian Chavarria - *Credit Suisse - Analyst*

Okay. And then, lastly I guess on the working capital side, and I think in the first quarter (inaudible) you noted that you guys are going to aggressively work on that. And I guess it pumped up -- there's a little bit of cash use this quarter. Just looking to how confident you are that you can generate cash from working capital here going into the second half of the year and kind of what efforts you're making.

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

Yes. I would say we're pretty highly confident we will generate cash in the second half certainly for two reasons. One, we are continuing to look at ways to become more efficient in working capital.

As you look at the working capital build at June 30, you know, the two largest components were, one, simply volumes being higher in the May-June timeframe versus November-December of yearend. And secondly, as Craig noted, raw material pricing year-on-year still being higher and raw prices basis being higher than the prior year.

We are working on a number of programs, and have over the last several years worked on programs to continue becoming more efficient. We think there will be some benefit in the second half for that. As well, we have traditionally generated a substantial amount of working capital in the fourth quarter in large part due to seasonality. We still expect that to be the case. So as we look for the entire year, we think we'll be either flat to slightly positive on working capital year-on-year.

Brian Chavarria - *Credit Suisse - Analyst*

Okay.

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

The other thing I would add on that is that 12.9% I think we compare favorably to our competition. And our actual days from a yearend basis in terms of number of days on hand actually decreased.

So to Bill's point, it was things like volume, raw material increasing and then some yearend initiatives we didn't duplicate at the end of the month or the quarter -- excuse me -- that added to that.



Brian Chavarria - *Credit Suisse - Analyst*

Okay. I appreciate the color there. Thanks.

Operator

Thank you for your question. Our next question comes from the line of Kristin McDuffy from Goldman Sachs. Please go ahead.

Kristin McDuffy - *Goldman Sachs - Analyst*

Yes. Hello. You guys indicated that you suffered from product mix decline, and I understand the wind energy segment. Were there any other areas where product mix is negatively affecting the quarter?

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

Yes. I think the other one -- big one there, Kristin, is the oilfield. You know, so the two big specialty elements, one is the wind energy; the other is oilfield, which when those go down, your mix is going to suffer because they're disproportionately profitable. And so, you're going to feel those a little bit more.

Kristin McDuffy - *Goldman Sachs - Analyst*

Can you give me a sense of the policies in China? What are the potential points for change, and what is the outlook for that going forward?

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

Yes. I think the long-term outlook in China is favorable. Clearly, wind energy is a major initiative within the government. What they had found though is when you went through 2010 and 2011, they were building wind energy farms so quickly and it grew so fast that while the farms were going up, they were never hooked to the grid.

And once the government discovered that they weren't actually yielding energy out of these wind farms, they actually demanded that all production be stopped until a certain percent - I know it's a high percent like 75%, 80% of any one field -- was actually hooked to the grid, up, operating and delivering energy. And so, that really put on a very significant dampener, into the wind energy in particular.

The second factor that many people are aware of when you look at China was as cash became more constrained earlier in the year, that affected many industries and producers where they just had more trouble getting cash availability. That started to change as the government has loosened up their policy. But there are still -- a significant slowdown in wind energy production itself in terms of the government hasn't really turned the faucet back on there yet.

In the long-term we have no doubt they will. But as you know, they are very effective government at turning things on and shutting them off when they want to.

Kristin McDuffy - *Goldman Sachs - Analyst*

So how long do you think -- I mean, is this something that will continue through into next year as we're thinking about our estimates going forward?



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

Yes. Right now, obviously, to try and forecast what the Chinese government is going to do is extremely difficult because they can change their policy and enact it unusually quickly compared to most governments. We are not predicating our forecast or our actions on them turning it back on this year. We would think that would be more a 2013.

But I always throw the caveat in that their government can turn on a dime. And that's our basic gut feel in dealing with our customers there where we have a very strong presence. But we certainly can't speak for that government.

Kristin McDuffy - *Goldman Sachs - Analyst*

Got it. And if you could give us a sense of which is the bigger magnitude in terms of the impact in your results, your Oilfield business or the Wind Energy business?

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

Just scanning a page here for a second. I think if you look at the oilfield is close to three times the impact of the wind energy on a year-over-year comparison basis.

Kristin McDuffy - *Goldman Sachs - Analyst*

Okay. And then, just lastly, could you just -- walk us through a little bit what was going on in the Base Epoxy Resin business in the quarter?

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

Yes. I mean base epoxy, while still a healthy result for the quarter, we're comparing against a record result in the prior year where it was very favorable; it was very tight. In this quarter it became looser in Asia, and Asia tends to -- as demand fell off there, as the macro, the general economy there fell -- declined compared to their historical growth rates.

So once you get loosening of supply needs, you tend to spill over into Europe, not so much the US, but into Europe. And so, you definitely saw a softening of prices. We had pretty good demand in our business, but we couldn't hold our pricing. So we had -- that was largely driven by margin erosion as we held on to demand but could not hold our margins.

Kristin McDuffy - *Goldman Sachs - Analyst*

Got it. Thanks so much.

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

As you think about some of these prior year quarters, we had outages. Some of our competitors had outages either in BPA or ECH. We talked about ECH in China. Generally, this year I would say people's networks have been online and working much better.

Kristin McDuffy - *Goldman Sachs - Analyst*

That's helpful. Thank you.



Operator

Thank you for your question there. Our next question comes from the line of Roger Spitz from Bank of America. Please go ahead.

Roger Spitz - Bank of America - Analyst

Thank you, and good morning, guys.

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

Hi, Roger.

Roger Spitz - Bank of America - Analyst

Hey, would you be able to provide operating rates for each BPA -- base epoxy resins and proppants on Q2 this year versus Q2 last year?

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

Yes. Roger, we don't share that kind of information publicly. So we'll talk -- obviously, they were weaker across the board driven by the factors that we have discussed, but we don't discuss specific percentiles for competitive reasons.

Roger Spitz - Bank of America - Analyst

Would you be able to discuss, at least for BPA and epoxy resins sort of what you think the overall global industry operating rate was?

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

Yes, I -- candidly I don't have that information in front of me, and I don't want to hazard a guess because we have so many segments. You know, I don't have specific information for industry-wide calculations sitting in front of me.

Roger Spitz - Bank of America - Analyst

Okay. We talked about reductions in base epoxy resin prices. Is that something you can talk about -- how much price went down in Q2 versus Q1 on your average basis?

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

We're just trying to look at some data to give you a quarter-over-quarter general kind of comment. Yes. In terms of EBITDA you would see -- just to give you again, you know, if you look at our base epoxy resins, you would see an erosion of about 40% in terms of EBITDA and that's all margin driven.

Roger Spitz - Bank of America - Analyst

Quarter-over-quarter or year-over-year?



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

That was quarter-over-quarter.

Roger Spitz - *Bank of America - Analyst*

Of Q1. Okay. Great. And could you speak about the impact of imports of -- sand proppants from at the current Q2 '12 particularly from China and Brazil? Was that a major impact on the business?

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

No. I know for other competitors, specifically, in ceramics and things of that nature, that is a major factor; for us it is not. They don't have the technology really to compete with us in all the product line that's competitive. And so, we've not seen that as a major factor in our business.

Roger Spitz - *Bank of America - Analyst*

So you're seeing the raw sand proppants are more competing with the ceramic province but not as much competing with the phenolic coated proppants that you provide.

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

Well, we do see raw sand competition as people have shifted to US-based competitors. I thought you were talking imports. And we've seeing -- we have seen some shift there as end-use customers are trying to optimize their cost structure. And we see that as a short-term phenomena as they're willing to trade off some yield and performance to get costs out immediately. But the biggest single factor for us is just the well shutting down.

Roger Spitz - *Bank of America - Analyst*

Just a volume thing. Okay. Thank you very much.

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

Thank you.

Operator

Thank you for your question there. Our next question comes from the line of James Finnerty from Citigroup. Please proceed.

James Finnerty - *Citigroup - Analyst*

Hi. Good morning.

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

Hi, James.



James Finnerty - Citigroup - Analyst

How are you? On the seasonality, do you expect a typical third quarter seasonality in terms of EBITDA given where you're standing right now?

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

Yes. I mean, there is a normal seasonal impact that occurs from summer holidays as well as we take some -- there's different times of the year that we take plants down, i.e. we build inventory in the first half of the year, draw down in the second half of the year. That's also a seasonal impact.

Those occur sometimes in summer -- shutdowns -- sometimes in the fourth quarter, specifically, November, December timeframe. So those seasonal impacts, if you apply historical seasonality, given the economy doesn't do anything unusual. We would expect to see those again.

James Finnerty - Citigroup - Analyst

So typically, you see a bit of a drop off going into third quarter or flat to a drop off in terms of EBITDA on a segment basis?

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

Yes. That would be fairly normal for us.

James Finnerty - Citigroup - Analyst

Got you. And sorry to ask about the proppants again, but it's a very sort of popular topic right now. Just taking a step back, in terms of proppants, you have guar based, do you have resin based, do you have enamel based? Is that sort of the way to look at it? I just want to get a better understanding of the bigger picture.

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

Can you -- I didn't --

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

Yes. I wasn't sure of the question. I'm sorry. Can you repeat that?

James Finnerty - Citigroup - Analyst

Sure. Sure. I was thinking about the proppants. And I know some peers in the chemical industry use guar, the bean from India to do proppants. Then there's people that make it synthetically and then there's other types. Could you give me just a brief overview of how you view the proppants initially from - and how you stand in it competitively in terms of size?

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

Yes. You know, we're one of the absolutely leaders in the industry. We consider ourselves a co-number one, per se. And, our technologies are leading -- our phenolic epoxy base. We also have other applications that we do use which we don't do a lot of talking about for proprietary reasons.

But we clearly see ourselves as a leader in the industry. We see ourselves as a technology leader. We see ourselves as a leader from a profitability standpoint. And so, we really do see ourselves as one of the key drivers and therefore try to take a lead in a lot of our initiatives from a proppant standpoint and also other services that we offer.

James Finnerty - Citigroup - Analyst

And you don't participate in the market that would require a guar in terms of raw materials.

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

No. We do coat a variety of substrates, so we have phenolic and epoxy coated sands, ceramics, and to Craig's point, use combinations of epoxies, phenolics and other chemistries in terms of our coatings, but not guar.

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

Yes. I would simply say we are constantly experimenting with different materials. And so, I wouldn't exclude anything in terms of development of product, looking at alternatives, et cetera. But that is not a major driver of our current portfolio.

James Finnerty - Citigroup - Analyst

And the technology you have is more weighted towards the natural gas industry. Would the other technologies, for example, guar more used in oil? I'm just trying to get a base understanding.

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

Well, from our standpoint, I'm not going to comment on what other people use for their products, for what wells they go into. But from our standpoint, we are very large in natural gas, rapidly moving into oil applications. And as the shift -- and we're also developing products for oil-based applications.

So our history has been more natural gas based. Going forward, we are much more moving into a more balanced mix so that in different market conditions, we can optimize our growth profile. And we're very, very active from a new product development standpoint. I won't try and guess or suppose what other people are going into, what kind of products they're using or what markets they're entering.

James Finnerty - Citigroup - Analyst

Okay. Thank you very much.

Operator

Thank you for your question.

(Operator Instructions)

Our next question comes from the line of Michal Marczak from UBS. Please go ahead.



Michal Marczak - UBS - Analyst

Hey, good morning.

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

Good morning.

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

Good morning.

Michal Marczak - UBS - Analyst

On the formaldehyde business, I know directionally Europe was down, Latin America, North America was up. Can you help us quantify the 2% decline by geography? Was Europe down low single digits, was it worse, was it better?

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

Yes. Well, when you look at the Forest Products business, it really was driven more by shutting down facilities, not so much the market declining but it was unattractive segments we're in and therefore, we chose to exit those segments.

And so, our total profitability went up, our EBITDA percent as the total went up as we exited unattractive -- and it wasn't so much we lost share that we wanted. It was we chose to exit markets, and therefore, our profitability is increasing. And that largely was in both exiting the Malaysian business as well as exiting segments of the European business and staying in attractive segments there, but exiting our German plant. That was a large volume plant for us, but produced little or no profit.

Michal Marczak - UBS - Analyst

Got it. And, in the Base Epoxy business, seems like there's been some curtailments in capacity in the industry. I know you don't want to give us a sense of [capacity] utilization for you guys, but maybe just directionally [through] the third quarter, do you think the industry feels tight or about the same as June, or are things kind of going in the wrong direction?

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

Yes. Right now I would say that about the same is the best read we have. I would say, and kind of referring back to a comment Bill made earlier, these markets can shift very quickly on a plant outage, either planned or unplanned.

And we have a team that does nothing but monitor all the way up and down the value chain on BPA, ECH up through liquid epoxies, and really look for opportunities to push price and value. And we find those things can shift very dramatically, either go long or short in a matter of 30 days.

So while right now from a macro standpoint -- referring back to some of the comments we had made and heard earlier -- we are not presupposing a recovery of any kind in the second half. But this is a market that if a plant goes down in Asia, either due to government action or just operational issues or planned outages, it could tighten up quickly and could affect the entire value chain in a positive way.

So we don't know of any of that right now. We are not seeing major shifts. I would say right now sideways is the best, yes, we could make. But like I said, it can change very quickly.

Michal Marczak - UBS - Analyst

Got it. And I guess, lastly, 52 million of cost savings, do you see any potential for more at this point? And then I guess when the deal was announced with the shared services agreement, you mentioned potential for revenue synergies, but it's too early to quantify it. Are there any revenue synergies that you see at this point?

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

Yes. We actually are seeing revenue synergies come out. We had our first product come out that I'm not going to talk about what end-use market segment for proprietary reasons. But we anticipate -- and the vast majority of this has already occurred -- just from that one product alone will deliver about \$12 million of EBITDA this year with significant upside from there. And that's developed across a range of our technologies across our divisions.

We have 17 more products under development that are all cross fertilization of technologies; some will take years to be developed because they're extremely complex; others will probably be rolled out in the next 6 months. But clearly, the growth synergies are there. We haven't tried to put a number on it because it's presupposing what products would hit or not.

But in our mind, there's no doubt the value is there. The first product has come out. It is very successful and this year will deliver \$12 million of EBITDA.

Michal Marczak - UBS - Analyst

That's great. You know, I'm not too familiar with shared service agreements. Is there -- do you keep separate IPs between the two silos? Is that how it works?

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

Yes. We're very diligent because of the two different legal structures, balance sheets, et cetera. We are extremely diligent about splitting out any cost elements, any shared growth elements. And we have a committee within the Company that decides where does the primary IP reside, what percentage of that, how do we allocate value as a result of that. And we are very, very meticulous about that allocation process, whether it's on the revenue side or on the cost side.

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

We can apply the same standards that we would apply if we were working with any third party with a development project.

Michal Marczak - UBS - Analyst

Okay. Great. Thank you very much.

Operator

Thanks for your question. And now, I'd like to turn the call over to Craig Morrison for closing remarks.



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

I'd like to thank everybody for your participation and your very active discussion and questions. And we look forward to our ongoing dialogue at the end of the next quarter. So thank you very much for your participation.

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

Thank you.

Operator

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

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