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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second quarter 2015 Hexion, Inc. , earnings conference call. My name is Tawanda, and I will be your coordinator for today. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to John Kompa, investor relations. Please proceed, sir.

John Kompa - Hexion - VP - IR & Public Affairs

Thank you, Tawanda. Good morning, and welcome to the Hexion, Inc. second 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, 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 hexion.com website under the Investor Relations section of Hexion, Inc. A replay of this call will be available for one week, and replay dial-in information is contained in our latest earnings release.

Before we start, I'd like to give you information about forward looking statements and use of non-GAAP information as part of this call. As you know, some of our comments today may include statements about our expectations for the future. Those expectations are subject to known and unknown 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 these 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 in our SEC filing.

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

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

Craig Morrison - *Hexion - Chairman, President, CEO*

Thanks, John. Turning to our results, second quarter 2015 revenues decreased 19% to \$1.1 billion, reflecting the negative impact of the US dollar strengthening and lower selling prices driven by the decline in oil prices.

On a constant currency basis, net sales would have decreased by 9% for the quarter. Our segment EBITDA totaled \$133 million, an 8% increase, or 22% on a constant currency basis. And epoxy phenolic encoding resins segment EBITDA increased by 14%, reflecting gains in our specialty epoxy products and improved performance in our base epoxy resins business. These gains offset weaker oil field profit results and the impact of the currency fluctuations.

Our global forest products EBITDA declined by \$4 million, primarily due to the \$6 million in currency headwinds that offset strength in our North American and Latin American forest products businesses.

Turning to slide 5. We continue to execute our strategic growth plan highlighted by our three formaldehyde sites under construction, which remain on track to come online in the second half 2015 and first quarter of 2016 as planned.

We also continue to execute our latest cost savings program and have achieved \$9 million in savings in the first half of 2015, out of a total program that will generate \$31 million in savings when completed. As we discussed on our last call, we successfully completed a \$315 million first priority senior secured notes offering in April and recently completed an ABL facility amendment which boosted our pro forma liquidity to \$706 million.

Turning to slide 6 and our combined raw material index. You can see that our total raw material input costs increased slightly on a sequential basis, primarily due to phenol volatility. Our raw materials, however, are significantly lower in the first half of 2015 versus the prior year period, reflecting double digit declines in our key feed stock costs. A favorable raw material environment is projected through 2015. For the first half of 2015, declines in our oilfield business have been offset by declining raw material prices and the balance of our portfolio, as we have previously indicated.

Turning to slide 7. On slide 7, we've highlighted three different applications where our products are meeting key challenges for today's auto manufacturers, of reducing weight and improving fuel consumption. We're pleased that our EPIKOTE resins and EPIKURE curing agents were used in the auto industry's first composite suspension coil found in the new Audi vehicle.

We've also developed with WGS Global Services a composite cam carrier for Ford's next generation engine platform. Our Bakelite thermoset version of the cam carrier is 30% lighter, reduces noise transmission and eliminates manufacturing steps associated with aluminum options. In collaboration with our industry partners, we are also continually refining our portfolio in response to manufacturers' increasing interest in composites as lighter weight alternatives to metal. For example, our epoxy resins are being used in door and window casings for the Porsche.

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



Bill Carter - *Hexion - EVP, CFO*

Thank you, Craig. Turning to our Epoxy, Phenolic and Coating Resins segment, revenue totaled \$683 million, reflecting a 21% decrease from the prior year as currency headwinds impacted sales by 10%, a negative price mix impact of 6% and lower volumes of 5%. Segment EBITDA increased by \$11 million compared to the prior year. We continued our strong momentum in the specialty epoxy business in all regions but particularly in China, due to continued demand from wind energy customers. We also saw improved results in our base epoxy resins business.

We successfully resolved a supplier outage impacting our Versatic acids business, and our Moerdijk, Netherlands site recently returned to normal operations. The overall portfolio continued to offset weaker results in our oilfield proppants business, and segment EBITDA margins improved year over year by 400 basis points.

Turning to the next slide, in our forest products resin segment, sales totaled \$404 million, a 15% decline from prior year with price mix headwinds of 12% reflecting the pass-through of declining raw materials and negative currency translation of 9% offsetting volume gains of 6%.

Segment EBITDA declined by \$4 million, or 6%, although our EBITDA margins still improved by 140 basis points. Volume gains and strong Latin America results could not fully offset a negative \$6 million currency impact and a \$3 million lead-lag headwind.

As Craig mentioned, we are driving our global formaldehyde investments towards completion as planned. Our Brazil expansion is set to come online in the next quarter. Each new site will have a built in book of business for contracted volumes on Day One of operations with our blue chip customers.

Regarding our balance sheet, our cash plus borrowing availability under our credit facilities was \$634 million at June 30. We were pleased to complete our first priority senior secured notes offering in April 2015 and our ABL facility amendment in July, which increased our pro forma liquidity to \$706 million.

In the first half of 2015, we also generated improved cash flow from operations with a net improvement of \$214 million over the first half of 2014. Our capital expenditure investments also totaled \$39 million in the second quarter.

Our net working capital totaled \$574 million as of June 30 and was essentially flat with year end 2014. Favorable networking capital trends in 2015 primarily reflected foreign currency translation benefits driven by the strengthening of the US dollar, lower raw material input costs and improvements in working capital efficiency. Our net working capital remained a modest 12% of LTM sales. We continue to anticipate a slight year over year decrease in net working capital compared to 2014.

Finally, proceeds from the bond deal were used to fund Hexion's growth program, increase liquidity and repay \$40 million of near-term maturities. Our ABL amendment also mitigated intra-year availability due to working capital fluctuations.

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

Craig Morrison - *Hexion - Chairman, President, CEO*

Thanks, Bill.

Tuning to slide 13. In summary our diverse portfolio and disciplined cost controls drove reported segment EBITDA gains up 8% to \$133 million, or 22% on a constant currency basis. Our Epoxy, Phenolic and Coating Resins segment benefited from strong performances in specialty epoxy resins as well as improvement in the base epoxy resin business. The forest products business reflected strength in North America and Latin America, offset by negative lead-lag and currency headwinds.

With the recent resolution of the supplier outage impacting our Versatics business, we continue to pursue additional recoveries under our insurance program. The majority of the negative impact due to supplier disruption in the first half '15 was offset by insurance recoveries.

We are also excited about our formaldehyde expansions, and the forest products leadership team is doing an excellent job driving their new sites to completion and will be ready to fully meet customer expectations.

In closing, we are pleased to complete our recent refinancing and ABL facility amendment which boosts our pro forma liquidity to \$706 million.

Let me now turn it over the operator for any questions that you might have. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question comes from the line of Tarek Hamid with J.P. Morgan. Please proceed.

Tarek Hamid - J.P. Morgan - Analyst

On the - the large headlines obviously on Asia in the last couple of weeks, really just sort of wanted to see if you guys had any kind of color in your business in Asia, and - and - and sort of at the 2Q and into 3Q how that's evolved. So do you see anything different on the demand side?

Craig Morrison - Hexion - Chairman, President, CEO

Yes. For us, Tarek, you really have to split Asia into two discussion points: wind energy and everything else. We're very big in construction over there as well. I'd say from the general economy on construction and things of that nature, it continues to be a challenging environment. I think everybody follows what's been going on in China and the fact that it's been a more problematic economy than you might have expected a few years back.

Conversely, the wind side continues to be extremely strong. We have a very, very strong presence, there with our epoxy composites going into the wind - wind - wind energy blades. And continue to win share over there. It continues to be a very robust environment.

So that offsets any other weakness we might have seen in the Chinese economy, and we continue that, continue to be the ongoing environment as far as the growth in wind energy through the remainder of the year. So for us, it's really a tale of two cities. You know, one - one side is the overall economy still continues to have challenges. Hence, you see the currency action that was taken. On the other side we are nicely in line in wind energy, which is very much supported by the government.

Tarek Hamid - J.P. Morgan - Analyst

Got it. Now on the epoxy side, I know there have been some tightness earlier in the year with some - with - with some of the outages in Europe. Are you still seeing any kind of lingering impacts from that? Or is that normal to something kind of closer to baseline?

Craig Morrison - Hexion - Chairman, President, CEO

Yes. We see - continue to see a more favorable environment that we saw last year, and we see that continuing through much of the remainder of the year. You know, it's not overly robust by any means. But it's a better environment than it was a year ago.



Tarek Hamid - *J.P. Morgan - Analyst*

Okay. The next - last one for me - on the proppant business. You know, assuming that the volume decline there is probably, you know, worse than - than the sort of the reported one for the entire epoxy segment. Kind of any color around that? How should we think about that? You know, some of the other proppant producers who maybe don't compete directly with you are kind of down 15-ish. Is that a reasonable number to use for modeling purposes?

Craig Morrison - *Hexion - Chairman, President, CEO*

I think you really, you know, need to look at competitors who are in resin-coated proppants to see the kind of volume declines we've discussed in the past. You know, we also do resale of raw sand for certain customers. And that is okay from a volume standpoint. But really where the majority of our money is made is on resin-coated proppants, and that's down well in excess of the 15% you quoted. Most industry competitors you'd see at 45% declines or more. And I think that's a better number to look at from a volume standpoint.

Tarek Hamid - *J.P. Morgan - Analyst*

That's helpful. Thank you very much.

Craig Morrison - *Hexion - Chairman, President, CEO*

Thank you.

Operator

Your next question comes from the line of Roger Spitz with Bank of America. Please proceed. Roger, the line is open. Your phone may be muted. Your next question comes from the line of James Finnerty with Citi. Please proceed.

James Finnerty - *Citigroup - Analyst*

Hi. Good morning.

Craig Morrison - *Hexion - Chairman, President, CEO*

Hi, James.

James Finnerty - *Citigroup - Analyst*

Hi. Just going back to proppants. Looking at your competitors, the - one of them in the resin-coated segment has talked about stability in volumes on a monthly sequential basis since April. And I just wanted to see if that seemed to make sense based on what you're seeing.

Craig Morrison - *Hexion - Chairman, President, CEO*

No. I wouldn't - you know, I mean I think we're starting to see it stabilize now as the industry stabilizes. But I'd say over the last few months we're continuing to see a weakening there. And it really depends competitor by competitor as to what field you're in or not in and whether you have higher end proppants or lower costs. So there's mix issues in other things that might factor in there. But I'd say it's starting to level out now. But over the last three or four months, we've seen a continuing weakening trend.



James Finnerty - Citigroup - Analyst

And - and the mix shift has been from what type of resin-coated proppant to another? Has it been from, you know, curable - to curable from pre-cured?

Craig Morrison - Hexion - Chairman, President, CEO

Well, it's - you know, it's been more of a mixed shift relative to higher end proppants. The more costly proppants. People are looking for cheaper alternatives, and that can take a range of forms from a technical standpoint. So, you know, it depends. You know, we tended to have - be the leader in innovation and probably a higher end mix than any competitors. So in some cases, you know, that's going to disproportionately impact you. Obviously, we're doing a lot of NPD around cheaper alternatives now as long as you're in this environment, which can be more attractive. We certainly have those. But I'd say we were disproportionately impacted, because we were disproportionately higher end.

James Finnerty - Citigroup - Analyst

Okay. And on Tarek's question about epoxies, you said - you said that it was a more favorable environment year over year. I - I assume part of that is just demand in terms of wind. But has - has the question regarding supply - is there a reduced supply currently due to outages? Or is that sort of normalized?

Craig Morrison - Hexion - Chairman, President, CEO

Yes. There were outages earlier in the year in Asia in some of the precursor materials, which also impacted - I think that's more normalized. And again, it's not as if it's an overly robust environment. It was comparing against a very weak environment last year.

James Finnerty - Citigroup - Analyst

Okay. And then just - just one quick question on cash flow. Just trying to tie out to - to cash-generated during the quarter. On the cash flow statement, there's a use this quarter on other liabilities. Should we assume that's related to restructuring?

Bill Carter - Hexion - EVP, CFO

Yes. I think that "other liabilities" was a couple of different things. It was certainly a little bit of restructuring but also incentive payments occurring that quarter - in this quarter. And we had some long-term incentive payments.

James Finnerty - Citigroup - Analyst

Gotcha. Great. Thanks very much. Very helpful.

Operator

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

Bill Hoffmann - RBC Capital Markets - Analyst

Hi, yes. Thanks. Good morning.



Craig Morrison - Hexion - Chairman, President, CEO

Hi, Bill.

Bill Hoffmann - RBC Capital Markets - Analyst

Craig, can you talk a little bit more - in this segment, you know, the Epoxy, Phenol coatings side, you show a volume decline of 5%. I'm assuming that the bulk of that is the proppant side of the equation. Where are you seeing growth in the other segments and, kind of, to what magnitude?

And then the second part of that comment - question in that segment is, is there still any costs - price-cost benefit in Q2 and is - that was normalizing in the quarter? And how should we think about that going forward?

Craig Morrison - Hexion - Chairman, President, CEO

Well, starting on, you know, the volume aspect, the large driver by far - virtually all of it if you're looking at Epoxy, Phenols, Coatings Division, was the oilfield proppant decline in volumes. [BERI] was slightly weaker than prior year, especially epoxy was significantly stronger - being double-digit growth. PSR, you know, our Phenolic Specialty Resins, were flat. And our Monomers and Dispersions businesses were slightly weaker. So very much a mixed bag. When you look at Forest Products, you can see it was growing nicely. You know, if you take proppants out for the overall business, the business grew 2.4% in total. So you can see proppants when you look at the overall company was all of the decline plus some.

Bill Hoffmann - RBC Capital Markets - Analyst

Great. Thanks. And then the - the price-cost in that segment. Where are you at - where are you in that cycle?

Craig Morrison - Hexion - Chairman, President, CEO

Price-cost, are you talking about for oilfield? I just want to make sure . . .

Bill Hoffmann - RBC Capital Markets - Analyst

The overall segment.

Bill Carter - Hexion - EVP, CFO

No, not in the oilfield. No, more in the epoxy side of the equation.

Craig Morrison - Hexion - Chairman, President, CEO

Well, in terms of margins and things, we've actually had expansion overall - driven by an ability to reduce costs. You know, clearly there's been the fall of raw materials, if I'm interpreting your question correctly. And there's been some decline in price. But overall, you can see by the EBITDA margins expanding, there's been expansion on a net-net basis. I'm not sure if I'm getting to your exact question or if I'm misinterpreting it.



Bill Hoffmann - RBC Capital Markets - Analyst

No, no. That's exactly right. I guess the question is, is that transition done? Do you think you'll be able to hold that kind of margin differential as you go forward?

Craig Morrison - Hexion - Chairman, President, CEO

Well right now in the current environment, we think we're able to maintain it. It's always difficult to see out past a quarter or two, seeing how volatile the world can be. But for now, we feel that we're able to maintain that benefit.

Bill Hoffmann - RBC Capital Markets - Analyst

Great. Thanks. And then just from just a pure cash flow standpoint. I guess the last quarter conference call you talked about being generally cash flow neutral in '15. Do you still expect to be that way? Just given the ongoing sort of weakness on the proppants side. Or is there anything else that sort of changes your view at this point?

Bill Carter - Hexion - EVP, CFO

Yes. I don't think we've had a significant change in our view. We certainly are shooting to be neutral. I think we may have, you know, a - a small usage of cash, certainly as we've seen to your point some of the variability in our businesses - though I would say we're not quite as bullish as we were in terms of getting to neutral, but we think we'll be close.

Bill Hoffmann - RBC Capital Markets - Analyst

And then, Bill, just on a Cap - CapEx number for the year. Where do you expect it to be? And once you get done with these formaldehyde plants, you know, how do you think about 2016 at this point?

Bill Carter - Hexion - EVP, CFO

Yes. As I think we previously disclosed, we think CapEx will be lower this year than it was last year. So just a little bit lower to use as guidance for this year. I think for next year we expect CapEx to decline, certainly more towards kind of normal levels. If you look up, you know, our last, you know, five years prior to the construction of these plants. As - as you know, I think we disclosed our last plant we finished in the first quarter.

Bill Hoffmann - RBC Capital Markets - Analyst

Right. Great. 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

Good morning.



Craig Morrison - Hexion - Chairman, President, CEO

Hi, Roger.

Roger Spitz - Bank of America Merrill Lynch - Analyst

Can you speak in some qualitative way to the extent of the sequential improvement in base epoxy EBITDA? And is this still driven mainly on the unplanned [BPA] outages? Or is there things going on in [LER or and/or EPI]?

Craig Morrison - Hexion - Chairman, President, CEO

Yes. I think, you know, the environment in - for the LER has improved on a sequential quarter over quarter basis. You know, it's tightening largely in Europe has been a more favorable environment as the currencies there have helped protect that region to some extent.

On the BPA and ECA, the precursors and things of that nature, the environment has weakened overall, as some of the outages that had occurred in the first quarter - specifically in Asia and Limited were reversed. And so that's become a bit of a more challenging environment.

So you had the LER environment improving on a quarter over quarter basis and the precursor environment becoming a little bit more challenging. Additionally, the other factor you had impacting the second quarter versus first quarter were we had some planned turnarounds that impacted us in the second quarter that will not be duplicated again in the third quarter.

Roger Spitz - Bank of America Merrill Lynch - Analyst

Is the Haverhill shutdown helping? Possibly on the - I'm not sure on the phenol side? But were they still selling BPA to the US merchant market and now shut? Or how has that impacted BPA? Or were they not really a factor anymore in BPA?

Craig Morrison - Hexion - Chairman, President, CEO

No, they were a factor. You know, we're clearly benefitting. You know, it has two impacts on us. They were supplier, phenol for us - a sizeable supplier. Because we're a very large global supplier, we were able to quickly replace that, you know, volume, which obviously was very helpful to us. Because we have a large network to leverage there. The other thing where we compete against them is in BPA sales externally into the market. And that, clearly, their volume disappearing is helpful to our market. And we're seeing a shoring up of demand in North America on BPA as a result of that, and a more favorable environment is projected going forward.

Roger Spitz - Bank of America Merrill Lynch - Analyst

And on the - the epoxy outage. I don't know if that was related to the - the turnaround you were talking about, or a different thing. And can you speak about the EBITDA impact and whether that - any impact - will flow into the Q3 '15 quarter?

Craig Morrison - Hexion - Chairman, President, CEO

We don't give out specific EBITDA impacts on our turnarounds and stuff. But clearly, they do have a turnaround - they do have an impact. They did impact the second quarter. We don't anticipate that impact rolling into the third quarter.



Roger Spitz - Bank of America Merrill Lynch - Analyst

Okay. The slides talked about an estimated negative lead-lag impact in Q2 '15 on forest products EBITDA. Has that now stabilized or - or - or turned around or what the uplift might be from that, if that has done so?

Bill Carter - Hexion - EVP, CFO

Yes. I think it is stabilizing. That was to Craig's comment on phenol. That was largely driven by phenol going up about 10% Q1 to Q2. And we saw that negative lead-lag impact from - from that increase. I think our - our view at this point is that it will stabilize as we get into Q3.

Roger Spitz - Bank of America Merrill Lynch - Analyst

And lastly, on the Brazilian formaldehyde, how will it work out? You've got sales starting from Day One. But you've got to ramp up the plant. There's ramp up costs, or startup costs. Is this a - a startup like, yes, you make some money, but the ramp up cost sort of offsets that? Or will that be generating a good portion of its normalized quarterly EBITDA in the Q3 period?

Craig Morrison - Hexion - Chairman, President, CEO

Well, I don't think we'll have - if you're talking third quarter of this year, I don't think you'll see an impact. It'll start to have maybe a very minor impact in fourth quarter. But it's really going to be more about a 2016 event there. These are not very expensive plants to start up. So it's not like, you know, we have a lot of experience. And it's not a very costly operation to start up. But I think the main impact by the time we do start up the plant and everything else will be more into the 2016 time frame, first quarter on.

Roger Spitz - Bank of America Merrill Lynch - Analyst

When do you actually make first formaldehyde, this quarter do you expect there?

Craig Morrison - Hexion - Chairman, President, CEO

I think it'll be near the end - near the end of the quarter.

Roger Spitz - Bank of America Merrill Lynch - Analyst

Great. Thank you very much.

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. In the second quarter specifically, was the impact of the Versatics force majeure completely offset by insurance money coming back in with regards to the impact on adjusted EBITDA? Or was it still a net negative for the quarter?

Craig Morrison - Hexion - Chairman, President, CEO

It was pretty much a break even in the second quarter.

Adam Goodwin - Goldman Sachs - Analyst

Okay. And then, you know, as we stand today, do you have any sense at this point if there's more insurance money or benefits from an accounting perspective poised to come in for the third quarter?

Craig Morrison - Hexion - Chairman, President, CEO

Well, we're continuing to pursue claims as there are ongoing impacts as a result of the plant having been shut down for such an extensive period of time. So we would fully anticipate that there will be ongoing claims. And we think we have a good case for those claims.

Adam Goodwin - Goldman Sachs - Analyst

So is the way to think about it that perhaps at some point in the back half of the year, as the force majeure has been resolved, you're not going to be seeing the negative effect associated with - with that? And yet there will probably be a benefit as you, you know, at some point get that insurance money back in?

Craig Morrison - Hexion - Chairman, President, CEO

Well, we believe there will be a benefit from the insurance money. But we also believe there continues to be a negative impact from a customer standpoint. When you have your plant, you know, more than half your capacity out and for a long period of time, there's naturally an ongoing customer. So it's not, as you bring it back up, that you necessarily are able to regain your business instantly. So there is going to be an impact rolling, we project, through the remainder of this year and even potentially next year.

Adam Goodwin - Goldman Sachs - Analyst

Any ways to quantify that?

Craig Morrison - Hexion - Chairman, President, CEO

We're - you know, due to the claim process ongoing, we're really not giving out any quantification at this time.

Adam Goodwin - Goldman Sachs - Analyst

Okay. And then you mentioned that conditions in the base epoxies business are not necessarily that robust. Would you characterize margins there as being below normalized or mid-cycle levels at this point?

Craig Morrison - Hexion - Chairman, President, CEO

Yes.

Adam Goodwin - *Goldman Sachs - Analyst*

Okay. And then with regards to your cost savings program, any sense of, you know, the \$30 million of anticipated savings. What portion of that has been achieved as of the second quarter?

Bill Carter - *Hexion - EVP, CFO*

Yes. We had talked of - of the \$30 million getting about \$28 million this year. And we took most of those actions early in the first quarter. So it's - it is slightly higher in the second half of the year versus the first half of the year. You know, probably somewhere in the \$9 million to \$10 million range in the first half, with the remainder in the second half.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. And then my last question. You mentioned that working capital would only be a modest source of cash for 2015, despite the fact that in the first half of the year is only a slight use and typically you tend to see a big working capital unwind in the back half of the year. And with oil prices coming down, any reason for conservatism there? I mean, could it be a more significant source of cash in the back half of the year?

Bill Carter - *Hexion - EVP, CFO*

Yes, I - I - you know, obviously to Craig's point on volatility around several of our businesses, it's hard to be precise on exactly where we think it will come out. Certainly, to your point, we are seeing benefits of the lower raw material, you know, driven by low oil impacts as well as FX. You know, on the other hand, as we talk about businesses like specialty epoxy and the performance of that business, we're seeing certainly higher working capital levels driven in terms of the sales performance. So I would say, you know, we do believe it will believe a generation of cash. In terms of exactly how much, it is difficult to predict.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. Thanks a lot, guys.

Craig Morrison - *Hexion - Chairman, President, CEO*

Thank you.

Operator

Your next question comes from the line of Melissa Tan, with R.W. Pressprich. Please proceed.

Melissa Tan - *R.W. Pressprich - Analyst*

Good morning. Thanks for taking my question. Just a follow up regarding the new plant that's expected to come online later this year, 2016. Are you able to give a breakdown of the EBITDA expectation from the three plants. And just secondly, is there a reason why you're guiding towards the lower end of your prior guidance of \$30 million to \$35 million? Has anything changed for the construction or demand, in that sense, for the three plants? Thank you.



Bill Carter - *Hexion - EVP, CFO*

No. I - I think our former guidance has been about \$32 million in terms of the EBITDA benefit from the plants. You know, our view has not changed in terms of what we think the plants will produce and the benefit to the business. So, you know, in terms of guidance, we - we still feel the same way. As I said, these are plants where we have customer contracts and customer arrangements in place in terms of their Day One startup, and those arrangements are all still in place.

Craig Morrison - *Hexion - Chairman, President, CEO*

You know, the only factor that might impact the outlook is not the operation or sales aspect in local currency, but translation back to the dollar since these plants were planned, you know, years ago with the Brazilian plant would be one factor. But that's not operational in nature.

Melissa Tan - *R.W. Pressprich - Analyst*

What about the breakdown of the EBITDA? Is it kind of \$10 million per location?

Bill Carter - *Hexion - EVP, CFO*

Yes. We - we - the plants are roughly the same size. We - I don't think we want to give specific EBITDA by plant, but you should think of them largely as equivalent in size.

Melissa Tan - *R.W. Pressprich - Analyst*

Thank you. And secondly, we know the - the oil proppant business will probably continue to suffer in the second half. In addition to the positives, you're seeing wind energy. Are there any other particular end markets that you're feeling more bullish about?

Craig Morrison - *Hexion - Chairman, President, CEO*

Well, you know, we continue to be positive about our overall Forest Products business. North American Resins, we think, is poised to continue to have a good year going forward. Latin America, if you took out the exchange rate impact, has had a very positive year as far as products. Like you had mentioned, the specialty epoxy with wind energy clearly has been one. So I'd say those are some of the ones that certainly are doing more than their share of offsetting the downturn in oilfield.

Melissa Tan - *R.W. Pressprich - Analyst*

Okay. So with that said, I guess then are you expecting just the oilfield to be the only thing that's dragging your - your numbers down aside from the currency impact?

Bill Carter - *Hexion - EVP, CFO*

I would say those are the two biggest drivers, yes.

Melissa Tan - *R.W. Pressprich - Analyst*

Okay. Great. Thank you.



Operator

Your next question comes from the line of [Tim Ray] with Alcentra. Please proceed.

Tim Ray - Alcentra - Analyst

Yes. Thanks. Can you just remind us what the total CapEx cost was for the three new plants? And then my only other question was - was an accounting one on the insurance proceeds.

Bill Carter - Hexion - EVP, CFO

Yes. The total CapEx was about \$110 million, as we disclosed previously.

Tim Ray - Alcentra - Analyst

Okay. And then on the insurance proceeds, just so I'm clear, the dollars that you've received so far, do they flow through the segment results? Are they in the income statement?

Bill Carter - Hexion - EVP, CFO

Yes. They're in the income statement and SG&A. And from a segment standpoint, they would hit the epoxy-phenolic resins segment.

Tim Ray - Alcentra - Analyst

I got you. Okay. Thank you. Actually, I'll - I'll sneak one more in. When - I think in the past - this seems like it's obviously a really good business, a high margin business. But it's been kind of variable in when it was contributing. I guess, my question is sort of, like, what kind of visibility - does this business have less visibility? More visibility? You seem like you're constructive going forward, but it's sort of driven in some ways by the Chinese government. Can you just comment on that?

Craig Morrison - Hexion - Chairman, President, CEO

Yes. I think, you know, in the longer term we continue to view this as a very positive segment to be in, with upper trajectory on volumes as we think wind will get more and more competitive. But, you know, you're right when you say that different governments - and certainly the biggest driver for us is in China right now - but certainly, when different governments take different policy stance either on tax incentives or other factors like hooking up to the grid, which China shut down their bill for a while to catch up on hooking up to the grid. That can have an impact. So the longer - medium to long term outlook we view is very favorable. But it certainly from a year to year, quarter to quarter basis could have some ups and downs.

Tim Ray - Alcentra - Analyst

Great. Thanks.

Operator

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

Brian Lalli - Barclays - Analyst

Hey, guys. Good morning.

Craig Morrison - Hexion - Chairman, President, CEO

Hey, Brian.

Bill Carter - Hexion - EVP, CFO

Good morning.

Brian Lalli - Barclays - Analyst

Good morning. You commented previously on just sort of the, you know, the general guidance between lower raw material costs and - and obviously impact of the proppants business. Is that still something you see as - I think your quote was a, you know, a net neutral impact as you move through 2015?

Craig Morrison - Hexion - Chairman, President, CEO

Yes. We would generally say that is a - you know, a net neutral to slightly positive impact in total, which is pretty much what we had said historically.

Brian Lalli - Barclays - Analyst

Okay. And then just as, you know, we look forward into 2016 - I know this is - is getting into some questions that some others have asked. But in that improvement in the base epoxy business, is there some comments you can give us on how sticky you really think that margin is? Or if this, you know, lower raw material cost sort of lives for a while and that stuff gets passed through to some of your customers, does some of that, you know, benefit, offsetting the proppant side dissipate into next year? Obviously, you get the benefit of the formaldehyde stuff coming online. But just thinking, you know, sort of the 18 month outlook, if you had any comments.

Craig Morrison - Hexion - Chairman, President, CEO

So you're primarily focused your question on the BERI business? The base epoxy?

Brian Lalli - Barclays - Analyst

That's correct. Yes, and just how much of that benefit is - is raw material-related that at some point theoretically could be given back to customers if that market still remains a little bit loose?

Craig Morrison - Hexion - Chairman, President, CEO

Yes. It really - you know, you're right. It's - there's the falloff in raws [allows]. And then really the big question is how much pricing power do you have to either maintain the margin improvement you gain? To increase it or to potentially have those margins shrink. And in total candor, there's not great visibility when you look out past a few months.



We think the environment we're currently in is - is pretty stable for the rest of the year. But going into next year, certainly by the time you hit the first quarter, it could improve where margins expand. And it can also become a more challenging environment, because knowing when plants go up or down, knowing what currency fluctuations may do and whether it makes them more competitive to import or less competitive, all those become factors. So we don't have great visibility as you start to go into next year.

Brian Lalli - *Barclays - Analyst*

As a follow up to that, do you - do you feel generally that the trend line in the base epoxy business is moving in the right direction, as you're starting to see continued demand especially in the specialty side as well?

Craig Morrison - *Hexion - Chairman, President, CEO*

Yes. I'd say there's a slightly improving trend if you look over the last year to 18 months. I think that's a fair statement.

Brian Lalli - *Barclays - Analyst*

And then one - one last one for me. Just as we broadly think about the balance sheet, I guess, you know, what are you guys thinking about as you look at your capital structure? Is it still just a simplistic focus on liquidity? Obviously, which, you know, you did a lot of with your recent financing. Or have you kind of thought more about, you know, near-term maturities and what you might do on that front as you look to lower interest expense, hopefully. That's all for me. Thanks, guys.

Bill Carter - *Hexion - EVP, CFO*

Yes. I - I - number - number one, to your point we're certainly focused on liquidity, and our recent bond offering was a recent component of that. You know, other than that I would say, as you know, we are, you know, we're focused on our - our balance sheet. I don't want to speculate on any, you know, specific thoughts we may have.

Operator

Your next question comes from the line of David Troyer with Seaport. Please proceed.

David Troyer - *Seaport Capital - Analyst*

Hi. Good morning. On working capital. I was wondering if there's any additional attribution. So you've already pointed out that in the first half of the year, you're about flat. It's in sharp contrast to the - the first half of a year ago, when it was up about \$350 million. So, you know, currency was a factor. Just the overall environment for oil and gas was a factor. Is there any specific attribution to the delta \$350 million versus zero that you - that you can give?

Bill Carter - *Hexion - EVP, CFO*

Yes. I - I don't want to give out specific amounts. But I would say to your point, certainly currency was an important factor as well as the level of raw materials. As well as we have continued to very closely manage working capital and look for efficiencies that we can, you know, build in that we believe will stick. And that has been, you know, a very important factor for us as we think about, you know, the year on year improvement. But the first two are certainly the largest components.



David Troyer - *Seaport Capital - Analyst*

Okay. And then for the second half of the year - and I know you've already started to address this - but with the exception of the epoxy resin business which you seem to think is taking up some momentum and will require some working capital maybe as volumes pick up, there isn't - is there not still a volumetric work down in inventories and work in progress and those types of areas as we move into the - you know, out of the construction season, say?

Bill Carter - *Hexion - EVP, CFO*

Yes. So you should expect to see, you know, our typical seasonal impact, which we would expect to generate working capital in the fourth quarter, which I think just as you noted is largely driven by the seasonality of construction?

So I think what - what we'll see is that we will see, you know, generation in the second half I think will probably be maybe a slight user of working capital in the third quarter. And then you'll see, you know, a generation in the fourth quarter.

As I've already given guidance, we think year over year we will be a net generator of cash through working capital. It's just this year we've worked hard not to quite have as quite a large a bill as in the first half. And as, you know, an even larger or similar takedown in the second half, so it'll be a little flatter.

David Troyer - *Seaport Capital - Analyst*

I'm going to ask a question that was just asked slightly differently. So you've recently bolstered liquidity. You have - you're - you're closer to completion of your CapEx. You have made some strides here in reducing costs. More [value can] supplier outages seem to be resolving themselves. Proppants business, my guess is there's still a lot of uncertainty. But it's more of a fine-tuning exercise now than - than the wild fluctuations or expectations that you may have had earlier on.

And then the other component of that is your securities prices, bond prices have changed fairly dramatically here - part of it due to a weak market. Are you - are you more focused today on balance sheet moves than you might have been, say, last conference call, you know, three months ago?

Bill Carter - *Hexion - EVP, CFO*

You know, David, I would just say that I think in all of our conference calls, you know, we re-emphasize the fact that, you know, A, we're very focused on liquidity and B, we are focused on our balance sheet. I don't want to speculate on this call any farther than that.

David Troyer - *Seaport Capital - Analyst*

Okay. Thank you.

Operator

And ladies and gentlemen, once again as a reminder to ask a question, please press star one. Your next question comes from the line of Dustin Shapir with Oak Hill. Please proceed.

Dustin Shapir - *Oak Hill - Analyst*

Hi, guys. I think you gave the volume decline for your proppants business around 45% or in that zip code. Could you guys give an impact to ASP for the quarter on a year over year basis?



Craig Morrison - Hexion - Chairman, President, CEO

Yes, we don't give out the specifics on that. But it's in line with what's been discussed in the industry.

Dustin Shapir - Oak Hill - Analyst

Okay. So is that on a year over year basis, 20% decline? Is that - is that in the zip code?

Craig Morrison - Hexion - Chairman, President, CEO

You could directionally put a number like that.

Dustin Shapir - Oak Hill - Analyst

Okay. So - Okay. So 45% volume, 20% ASP. Great. Thank you very much.

Craig Morrison - Hexion - Chairman, President, CEO

Thank you.

Operator

And with no further questions in queue, I would now like to turn the conference over to Craig Morrison for closing remarks.

Craig Morrison - Hexion - Chairman, President, CEO

I would like to thank everybody for participating in the call today. And we will look forward to speaking with you in the next quarter. Have a good day.

Operator

Thank you for joining today's conference. That concludes the presentation. You may now disconnect, and have a great day.

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