UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-71

HEXION™
Responsible Chemistry

HEXION INC.

(Exact name of registrant as specified in its charter)

New Jersey	**13-0511250**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
180 East Broad St., Columbus, OH 43215	**614-225-4000**
(Address of principal executive offices including zip code)	**(Registrant's telephone number including area code)**

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None		None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Explanatory Note: While the registrant is not subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, it has filed all reports required to be filed by such filing requirements during the preceding 12 months.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

Number of shares of common stock, par value $0.01 per share, outstanding as of the close of business on November 1, 2020: 100

HEXION INC.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
HEXION INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In millions, except share data)	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents (including restricted cash of $3 and $4, respectively)	$ 158	$ 254
Accounts receivable (net of allowance for doubtful accounts of $3)	363	316
Inventories:		
Finished and in-process goods	191	211
Raw materials and supplies	70	82
Current assets held for sale (see Note 4)	103	99
Other current assets	51	40
Total current assets	936	1,002
Investment in unconsolidated entities	16	14
Deferred tax assets	6	6
Long-term assets held for sale (see Note 4)	318	400
Other long-term assets	60	44
Property and equipment:		
Land	78	82
Buildings	124	114
Machinery and equipment	1,207	1,148
	1,409	1,344
Less accumulated depreciation	(187)	(63)
	1,222	1,281
Operating lease assets	105	110
Goodwill	164	164
Other intangible assets, net	1,082	1,125
Total assets	$ 3,909	$ 4,146
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 265	$ 289
Debt payable within one year	77	70
Interest payable	21	35
Income taxes payable	6	17
Accrued payroll and incentive compensation	40	43
Current liabilities associated with assets held for sale (see Note 4)	67	69
Current portion of operating lease liabilities	19	20
Other current liabilities	112	95
Total current liabilities	607	638
Long-term liabilities:		
Long-term debt	1,756	1,715
Long-term pension and post employment benefit obligations	223	223
Deferred income taxes	153	149
Operating lease liabilities	78	82
Long-term liabilities associated with assets held for sale (see Note 4)	59	56
Other long-term liabilities	206	208
Total liabilities	3,082	3,071
Commitments and contingencies (see Note 9)		
Equity		
Common stock —$0.01 par value; 100 shares authorized, issued and outstanding	—	—
Paid-in capital	1,168	1,165
Accumulated other comprehensive loss	(49)	(1)
Accumulated deficit	(292)	(89)
Total equity	827	1,075
Total liabilities and equity	$ 3,909	$ 4,146

See Notes to Condensed Consolidated Financial Statements

HEXION INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In millions)	Successor		Predecessor	Successor		Predecessor
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019
Net sales	$ 634	$ 693	$ —	$ 1,855	$ 693	$ 1,481
Cost of sales (exclusive of depreciation and amortization shown below)	500	586	—	1,514	586	1,211
Selling, general and administrative expense	56	61	—	164	61	128
Depreciation and amortization	47	48	—	143	48	43
Asset impairments	—	—	—	16	—	—
Business realignment costs	19	12	—	57	12	14
Other operating expense, net	4	4	—	15	4	17
Operating income (loss)	8	(18)	—	(54)	(18)	68
Interest expense, net	25	28	—	76	28	89
Other non-operating (income) expense, net	(8)	4	—	(12)	4	(11)
Reorganization items, net	—	—	(3,126)	—	—	(2,970)
(Loss) income from continuing operations before income tax and earnings from unconsolidated entities	(9)	(50)	3,126	(118)	(50)	2,960
Income tax expense (benefit)	17	(5)	191	8	(5)	201
(Loss) income from continuing operations before earnings from unconsolidated entities	(26)	(45)	2,935	(126)	(45)	2,759
Earnings from unconsolidated entities, net of taxes	—	1	—	2	1	1
(Loss) income from continuing operations, net of taxes	(26)	(44)	2,935	(124)	(44)	2,760
(Loss) income from discontinued operations, net of taxes	(76)	1	119	(79)	1	135
Net (loss) income	$ (102)	$ (43)	$ 3,054	$ (203)	$ (43)	$ 2,895
Net income attributable to noncontrolling interest	—	—	—	—	—	(1)
Net (loss) income attributable to Hexion Inc.	$ (102)	$ (43)	$ 3,054	$ (203)	$ (43)	$ 2,894

See Notes to Condensed Consolidated Financial Statements

HEXION INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

	Successor		Predecessor	Successor		Predecessor
(In millions)	**Three Months Ended September 30, 2020**	**July 2, 2019 through September 30, 2019**	**July 1, 2019**	**Nine Months Ended September 30, 2020**	**July 2, 2019 through September 30, 2019**	**January 1, 2019 through July 1, 2019**
Net (loss) income	$ (102)	$ (43)	$ 3,054	$ (203)	$ (43)	$ 2,895
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	7	(16)	—	(29)	(16)	(8)
Unrealized loss on cash flow hedge	(1)	—	—	(19)	—	—
Other comprehensive income (loss)	6	(16)	—	(48)	(16)	(8)
Comprehensive (loss) income	$ (96)	$ (59)	$ 3,054	$ (251)	$ (59)	$ 2,887
Comprehensive income attributable to noncontrolling interest	—	—	—	—	—	(1)
Comprehensive (loss) income attributable to Hexion Inc.	$ (96)	$ (59)	$ 3,054	$ (251)	$ (59)	$ 2,886

See Notes to Condensed Consolidated Financial Statements

HEXION INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In millions)	Successor Nine Months Ended September 30, 2020	Successor July 2, 2019 through September 30, 2019	Predecessor January 1, 2019 through July 1, 2019
Cash flows (used in) provided by operating activities			
Net (loss) income	$ (203)	$ (43)	$ 2,895
Less: (Loss) income from discontinued operations, net of tax	(79)	1	135
(Loss) income from continuing operations	(124)	(44)	2,760
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	143	48	43
Non-cash asset impairments	16	—	—
Non-cash reorganization items, net	—	—	(3,156)
Deferred tax expense (benefit)	5	(8)	140
Loss on sale of assets	7	—	3
Unrealized foreign currency (gains) losses	(1)	6	(7)
Non-cash stock based compensation expense	13	4	—
Financing fees included in net loss	—	—	136
Other non-cash adjustments	(1)	(2)	(1)
Net change in assets and liabilities:			
Accounts receivable	(55)	12	(73)
Inventories	31	25	(20)
Accounts payable	(14)	(58)	(15)
Income taxes payable	(8)	2	15
Other assets, current and non-current	(1)	5	3
Other liabilities, current and non-current	(22)	17	9
Net cash (used in) provided by operating activities from continuing operations	(11)	7	(163)
Net cash (used in) provided by operating activities from discontinued operations	(1)	18	(10)
Net cash (used in) provided by operating activities	(12)	25	(173)
Cash flows used in investing activities			
Capital expenditures	(78)	(18)	(41)
Proceeds from sale of assets, net	2	—	1
Net cash used in investing activities from continuing operations	(76)	(18)	(40)
Net cash used in investing activities from discontinued operations	(13)	(4)	(2)
Net cash used in investing activities	(89)	(22)	(42)
Cash flows provided by (used in) financing activities			
Net short-term debt repayments	(25)	(6)	(4)
Borrowings of long-term debt	209	91	2,313
Repayments of long-term debt	(167)	(100)	(2,261)
Return of capital to parent (see Note 6)	(10)	—	—
Proceeds from rights offering	—	—	300
Financing fees paid	—	(2)	(136)
Net cash provided by (used in) financing activities	7	(17)	212
Effect of exchange rates on cash and cash equivalents, including restricted cash	(2)	(3)	—
Change in cash and cash equivalents, including restricted cash	(96)	(17)	(3)
Cash, cash equivalents and restricted cash at beginning of period	254	125	128
Cash, cash equivalents and restricted cash at end of period	$ 158	$ 108	$ 125
Supplemental disclosures of cash flow information			
Cash paid for:			
Interest, net	$ 88	$ 3	$ 71
Income taxes, net	12	4	10
Reorganization items, net	—	—	188
Non-cash financing activities	13	—	—

See Notes to Condensed Consolidated Financial Statements

HEXION INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT) (Unaudited)

(In millions)	Common Stock	Paid-in Capital	Treasury Stock	Loan Receivable from Parent	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Hexion Inc. (Deficit) Equity	Noncontrolling Interest	Total Shareholder's (Deficit) Equity
Predecessor									
Balance at December 31, 2018	$ 1	$ 526	$ (296)	$ —	$ (18)	$ (3,125)	$ (2,912)	$ (2)	$ (2,914)
Net loss	—	—	—	—	—	(160)	(160)	1	(159)
Other comprehensive loss	—	—	—	—	(8)	—	(8)	—	(8)
Balance at June 30, 2019	$ 1	$ 526	$ (296)	$ —	$ (26)	$ (3,285)	$ (3,080)	$ (1)	$ (3,081)
Elimination of Predecessor equity	(1)	(526)	296	—	—	231	—	—	—
Elimination of Predecessor accumulated other comprehensive loss	—	—	—	—	26	—	26	—	26
Net income	—	—	—	—	—	3,054	3,054	—	3,054
Balance at July 1, 2019	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (1)	$ (1)
Issuance of Successor Company common stock	—	1,157	—	—	—	—	1,157	—	1,157
Successor									
Balance at July 2, 2019	$ —	$ 1,157	$ —	$ —	$ —	$ —	$ 1,157	$ (1)	$ 1,156
Net loss	—	—	—	—	—	(43)	(43)	—	(43)
Stock-based compensation expense	—	5	—	—	—	—	5	—	5
Other comprehensive loss	—	—	—	—	(16)	—	(16)	—	(16)
Balance at September 30, 2019	$ —	$ 1,162	$ —	$ —	$ (16)	$ (43)	$ 1,103	$ (1)	$ 1,102
Balance at June 30, 2020	$ —	$ 1,164	$ —	$ —	$ (55)	$ (190)	$ 919	$ —	$ 919
Net loss	—	—	—	—	—	(102)	(102)	—	(102)
Stock-based compensation expense	—	4	—	—	—	—	4	—	4
Other comprehensive income	—	—	—	—	6	—	6	—	6
Balance at September 30, 2020	$ —	$ 1,168	$ —	$ —	$ (49)	$ (292)	$ 827	$ —	$ 827
Balance at December 31, 2019	$ —	$ 1,165	$ —	$ —	$ (1)	$ (89)	$ 1,075	$ —	$ 1,075
Net loss	—	—	—	—	—	(203)	(203)	—	(203)
Stock-based compensation expense	—	13	—	—	—	—	13	—	13
Other comprehensive loss	—	—	—	—	(48)	—	(48)	—	(48)
Return of capital to parent (see Note 6)	—	(10)	—	—	—	—	(10)	—	(10)
Distribution of affiliate loan (see Note 6)	—	—	—	(10)	—	—	(10)	—	(10)
Settlement of affiliate loan (see Note 6)	—	—	—	10	—	—	10	—	10
Balance at September 30, 2020	$ —	$ 1,168	$ —	$ —	$ (49)	$ (292)	$ 827	$ —	$ 827

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In millions, except share data)

1. Background and Basis of Presentation

Based in Columbus, Ohio, Hexion Inc. ("Hexion" or the "Company") serves global adhesive, coatings, composites and industrial markets through a broad range of thermoset technologies, specialty products and technical support for customers in a diverse range of applications and industries. The Company's business is organized based on the products offered and the markets served. In January 2020, the Company changed its reporting segments to align around its growth platforms. At September 30, 2020, the Company had three reportable segments: Adhesives; Coatings and Composites; and Corporate and Other.

The unaudited Condensed Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries in which minority shareholders hold no substantive participating rights. Intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement have been included. Results for the interim periods are not necessarily indicative of results for the entire year.

Year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP").

Pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the accompanying notes included in the Company's most recent Annual Report on Form 10-K.

Sale of Phenolic Specialty Resins Business

On September 27, 2020, the Company entered into a definitive agreement (the "Purchase Agreement") for the sale of its Phenolic Specialty Resins ("PSR"), Hexamine and European-based Forest Products Resins businesses (together with PSR, the "Held for Sale Business") to Black Diamond Capital Management, LLC and Investindustrial (the "Buyers") for a purchase price of approximately $425. The consideration consists of $335 in cash and certain assumed liabilities with the remainder in future contingent proceeds based on the performance of the Held for Sale Business. For more information, see Note 4 "Discontinued Operations".

As of September 30, 2020, the Company reclassified the assets and liabilities of the Held for Sale Business as held for sale on the unaudited Condensed Consolidated Balance Sheets and reported the results of the operations for the three and nine months ended September 30, 2020 as "(Loss) income from discontinued operations, net of taxes" on the unaudited Condensed Consolidated Statements of Operations. Amounts for prior periods have similarly been retrospectively reclassified for all periods presented.

Additionally, the Company has included $4, $11, $4 and $10 in both "Net sales" and "Cost of sales" within the Company's continuing operations for the Successor three and nine months ended September 30, 2020, the Successor period July 2, 2019 through September 30, 2019 and the Predecessor period January 1, 2019 through July 1, 2019, respectively, which represents sales from the Company's continuing operations to the Held for Sale Business that were previously eliminated in consolidation. These reclassifications had no impact on "Net (loss) income" in the unaudited Condensed Consolidated Statements of Operations for any of the periods presented.

Emergence from Chapter 11 and Fresh Start Accounting

On April 1, 2019, the Company, Hexion Holdings LLC, Hexion LLC and certain of the Company's subsidiaries (collectively, the "Debtors") filed voluntary petitions (the "Bankruptcy Petitions") for reorganization under Chapter 11 ("Chapter 11") of the U.S. Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware, (the "Bankruptcy Court"). The Chapter 11 proceedings were jointly administered under the caption *In re Hexion TopCo, LLC*, No. 19-10684 (the "Chapter 11 Cases"). The Debtors continued to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

On June 25, 2019, the Court entered an order (the "Confirmation Order") confirming the Second Amended Joint Chapter 11 Plan of Reorganization of Hexion Holdings LLC and its Debtor Affiliates under Chapter 11 (the "Plan"). On the morning of July 1, 2019 (the "Effective Date"), in accordance with the terms of the Plan and the Confirmation Order, the Plan became effective and the Debtors emerged from bankruptcy (the "Emergence").

As a result of the Company's reorganization and emergence from Chapter 11 bankruptcy on the Effective Date, the Company's direct parent is Hexion Intermediate Holding 2, Inc. ("Hexion Intermediate"), a holding company and wholly owned subsidiary of Hexion Intermediate Holding 1, Inc., a holding company and wholly owned subsidiary of Hexion Holdings Corporation, the ultimate parent of Hexion ("Hexion Holdings" or "Parent"). Prior to its reorganization, the Company's parent was Hexion LLC, a holding company and wholly owned subsidiary of Hexion Holdings LLC (now known as Hexion TopCo, LLC or "TopCo"), the previous ultimate parent entity of Hexion, which was controlled by investment funds managed by affiliates of Apollo Management Holdings, L.P. (together with Apollo Global Management, Inc. and its subsidiaries, "Apollo"). On the Effective Date, the Company's existing common stock were cancelled and 100 new shares of common stock were issued at a par value of $0.01 to the Company's new direct parent Hexion Intermediate in accordance with the Plan.

On the Effective Date, the Company applied fresh start accounting to its financial statements, which resulted in a new basis of accounting and the Company became a new entity for financial reporting purposes. As a result of the application of fresh start accounting and the effects of the implementation of the Plan, the Condensed Consolidated Financial Statements after the Effective Date are not comparable with the Condensed Consolidated Financial Statements prior to that date. References to “Successor” or “Successor Company” relate to the financial position and results of operations of the Company after the Effective Date. References to “Predecessor” or “Predecessor Company” refer to the financial position and results of operations of the Company on or before the Effective Date.

2. Summary of Significant Accounting Policies

Use of Estimates—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and also requires the disclosure of contingent assets and liabilities at the date of the financial statements. In addition, it requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Recognition—The Company follows the principles-based five step model to recognize revenue upon the transfer of promised goods or services to customers and in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. Revenue, net of estimated allowances and returns, is recognized when the Company has completed its performance obligations under a contract and control of the product is transferred to the customer. Substantially all revenue is recognized at the time shipment is made or upon delivery as risk and title to the product transfer to the customer. Sales, value add, and other taxes that are collected concurrently with revenue-producing activities are excluded from revenue. Contract terms for certain transactions, including sales made on a consignment basis, result in the transfer of control of the finished product to the customer prior to the point at which the Company has the right to invoice for the product. In these cases, timing of revenue recognition will differ from the timing of invoicing to customers and will result in the Company recording a contract asset. A contract asset balance of $6 is recorded within “Other current assets” at both September 30, 2020 and December 31, 2019 in the unaudited Condensed Consolidated Balance Sheet. Refer to Note 12 for additional discussion of the Company’s net sales by reportable segment disaggregated by geographic region.

Cash and Cash Equivalents— The Company considers all highly liquid investments that are purchased with an original maturity of three months or less to be cash equivalents. The Company’s restricted cash balance of $3 and $4 at September 30, 2020 and December 31, 2019, respectively, represents deposits to secure certain bank guarantees issued to third parties to guarantee potential obligations of the Company primarily related to the completion of tax audits and environmental liabilities. These balances will remain restricted as long as the underlying exposures exist and are included in the unaudited Condensed Consolidated Balance Sheets as a component of “Cash and cash equivalents.”

Allowance for Doubtful Accounts— Under adoption of ASU 2016-13, the Company has updated its credit loss methodology to consider a broader range of reasonable and supportable information to determine its credit loss estimates. The Company utilizes a historical aging method disaggregated by portfolio segment of geographic region, and then the Company makes any necessary adjustments for current conditions and forecasts about future economic conditions for calculating its allowance for doubtful accounts. The Company evaluates each pooled receivables’ geographic region by differing regional industrial and economic conditions, overall end market conditions and groups of customers with similar risk profiles related to timing and uncertainty of future collections. If particular accounts receivable balances no longer display risk characteristics that are similar to other pooled receivables, the Company performs individual assessments of expected credit losses for those specific receivables. Receivables are charged against the allowance for doubtful accounts when it is probable that the receivable will not be collected.

During the three and nine months ended September 30, 2020, the Company increased its allowance for doubtful accounts provision for expected credit losses by less than $1, to reflect current business conditions, forecasts of future economic conditions and the impacts related to the global business and market disruptions of the coronavirus disease 2019 (“COVID-19”) pandemic in accordance with ASU 2016-13 (see Note 3 for more information). The Company’s current expectations and assumptions regarding its business, the economy and other future events and conditions are based on currently available financial, economic and competitive data and current business plans as of September 30, 2020. Actual results could vary materially depending on risks and uncertainties that may affect the Company’s operations, markets, services, prices and other factors.

The Company recorded an allowance for doubtful accounts of $3 at both September 30, 2020 and December 31, 2019, to reduce accounts receivable to their estimated net realizable value. Accounts receivable balances are written-off against the allowance if a final determination of uncollectibility is made. There were no write-offs or recoveries for the Successor three and nine months ended September 30, 2020.

Goodwill— Goodwill is reviewed annually for impairment of value or more frequently when potential impairment triggering events are present. The Company’s annual impairment testing date is October 1. The Company continuously monitors events which could trigger an interim impairment analysis, such as changing business conditions and environmental factors, which included the impact of the COVID-19 pandemic for the three and nine months ended September 30, 2020 and the signing of the Purchase Agreement for the Held for Sale Business in September 2020. The Company determined there was no triggering event requiring an interim impairment analysis at September 30, 2020. However, the continued duration and severity of COVID-19 may result in future impairment charges as a prolonged pandemic could have an additional impact on the results of the Company’s operations.

Reclassifications— Certain amounts in the unaudited Condensed Consolidated Financial Statements for prior periods have been reclassified to conform with the current presentation. These reclassifications were to record the assets and liabilities of the Held for Sale Business and the results of operations as discontinued operations. See Note 4 for more information.

Subsequent Events—The Company has evaluated events and transactions subsequent to September 30, 2020 through the date of issuance of its unaudited Condensed Consolidated Financial Statements.

Recently Issued Accounting Standards

Newly Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13: Financial Instruments - Credit Losses (Topic 820): *Measurement of Credit Losses on Financial Instruments*, ("ASU 2016-13"). The amendments in this update replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. New disclosures are also required with this standard. The standard is effective for annual and interim periods beginning after December 15, 2019. This standard impacts the Company's accounts receivables and contract assets. The Company adopted ASU 2016-13 at January 1, 2020, using a modified retrospective adoption method. Under this method of adoption, there is no impact to the comparative Consolidated Statement of Operations and the Consolidated Balance Sheets. There was an immaterial impact of adopting ASU 2016-13 on the date of adoption.

In August 2018, the FASB issued ASU 2018-15: Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* ("ASU 2018-15"). ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard was effective for annual and interim periods beginning after December 15, 2019. The Company adopted ASU 2018-15 prospectively on January 1, 2020 and the adoption had an immaterial impact on its condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04: Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). ASU 2020-04 will provide optional expedients and exceptions for a limited period of time to ease the potential burden in accounting for contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The Company has adopted ASU 2020-04 and the initial adoption of this ASU did not have an impact on our condensed consolidated financial statements.

Recently Issued Accounting Standards

In December 2019, the FASB issued ASU 2019-12: Income Taxes (Topic 740): *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 will simplify the accounting for income taxes by removing certain exceptions to the general principles in income tax accounting and improve consistent application of and simplify GAAP for other areas of income tax accounting by clarifying and amending existing guidance. The new guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently assessing the potential impact ASU 2019-12 will have on its condensed consolidated financial statements**.**

In August 2018, the FASB issued ASU 2018-14: Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The standard is effective for fiscal years ending after December 15, 2020. The Company is currently assessing the potential impact of ASU 2018-14 on its financial statements.

3. COVID-19 Impacts

In March 2020, the World Health Organization categorized COVID-19 as a global pandemic. Around the world, local governments' responses to COVID-19 continue to evolve, which has led to stay-at-home orders, social distancing guidelines and other preventative measures that have disrupted various industries in the global economy and the markets in which our products are manufactured, distributed and sold.

During this pandemic, the Company has implemented additional guidelines to further protect the health and safety of its employees as the Company continues to operate with its suppliers and customers. The Company has maintained a focus on the safety of its employees while minimizing potential disruptions caused by COVID-19. For example, the Company is following all legislatively-mandated travel directives in the various countries where it operates, and the Company has also put additional travel restrictions in place for its associates designed to reduce the risk from COVID-19. Additionally, the Company is utilizing extended work from home options to protect its office associates, while adjusting its meeting protocols and processes at its manufacturing sites.

The Company's businesses have been designated by many governments as essential businesses and the Company's operations have continued through September 30, 2020. While the Company has continued to operate during the pandemic, it did incur adverse financial impacts to its sales and profitability results during the three and nine months ended September 30, 2020 from COVID-19, primarily related to reduced volumes associated with the pandemic. The pandemic has impacted global economic conditions and lowered demand in many of the end use markets in which the Company operates such as automotive, aerospace, industrial products, oil and gas, construction and housing. The ultimate impact that COVID-19 will have on the Company's future financial position, operating results and cash flows involves numerous risks and uncertainties, including new information which may emerge concerning the severity and duration of COVID-19 and actions to contain the virus or treat its impact.

The Coronavirus Aid, Relief, and Economic Security (the “CARES”) Act was enacted on March 27, 2020 in the U.S. The CARES Act includes several significant provisions, such as delaying certain payroll tax payments, mandatory transition tax payments under the Tax Cuts and Jobs Act, and estimated income tax payments. The Company does not currently expect the CARES Act to have a material impact on its financial results, including on its annual estimated effective tax rate but the Company delayed approximately $15 of certain income tax and non-income tax payments to the third quarter of 2020 and deferred an additional $5 of certain tax payments to future years. The Company will continue to monitor and assess the CARES Act and similar legislation in other jurisdictions where the Company operates that may impact the Company’s business and financial results.

Subsequent to September 30, 2020, the United States, and the global regions where the Company operates, continue to be affected by COVID-19. The Company is closely monitoring the COVID-19 pandemic on all aspects of its businesses and geographies, including the impact on its facilities, employees, customers, suppliers, vendors, business partners and distribution.

4. Discontinued Operations

On September 27, 2020, the Company entered into a Purchase Agreement for the sale of PSR, Hexamine and European-based Forest Products Resins businesses (together with PSR, the “Held for Sale Business” or the “Business”) to Black Diamond Capital Management, LLC and Investindustrial (the “Buyers”) for a purchase price of approximately $425. The consideration consists of $335 in cash and certain assumed liabilities with the remainder in future contingent proceeds based on the performance of the Held for Sale Business. The final purchase price is subject to customary post-closing adjustments. The Held for Sale Business was formerly included in the Company’s Adhesives reportable segment.

Assets included in the transaction are the Company’s manufacturing sites in Barry, United Kingdom; Cowie, United Kingdom; Lantaron, Spain; Botlek, Netherlands; Iserlohn, Germany; Frielendorf, Germany; Solbiate, Italy; Kitee, Finland; Louisville, Kentucky; Acme, North Carolina; and the Company's 50% ownership interest in Hexion Schekinoazot Holding B.V. (the “Russia JV”), a joint venture that manufactures forest products resins in Russia.

The Held for Sale Business produces phenolic specialty resins and engineered thermoset molding compounds used in applications that require extreme heat resistance and strength, such as after-market automotive and original equipment manufacturing (“OEM”) truck brake pads, filtration, aircraft components and foundry resins. The Business is also a significant producer of formaldehyde-based resins in Europe and merchant formaldehyde and formaldehyde derivatives in the Louisville and Acme plants, respectively. Formaldehyde-based resins, also known as forest products resins, are a key adhesive and binding ingredient used in the production of a wide variety of engineered lumber products, including medium density fiberboard (“MDF”), particleboard and oriented strand board (“OSB”). These products are used in a wide range of applications in the construction, remodeling and furniture industries. Merchant formaldehyde and formaldehyde derivatives are intermediate ingredients that are used in a variety of durable and industrial products. The Business generated annual sales of approximately $600 in 2019, and was reported within the Adhesives reportable segment. The sale is subject to customary closing conditions, including European Works Council consultation, and is expected to close in the first quarter of 2021.

Until the closing date, the Company has agreed to operate the Held for Sale Business in the ordinary course. The Company has agreed to provide certain transitional services to the Buyers for a limited period of time following the closing.

As of September 30, 2020, the Company reclassified the assets and liabilities of the Held for Sale Business as held for sale on the unaudited Condensed Consolidated Balance Sheets and reported the results of the operations for the three and nine months ended September 30, 2020 as “Income (loss) from discontinued operations, net of tax” on the unaudited Condensed Consolidated Statements of Operations. Amounts for prior periods have similarly been retrospectively reclassified for all periods presented.

The Held for Sale Business had $14 of goodwill at both September 30, 2020 and December 31, 2019 and $61 and $63 of other intangible assets at September 30, 2020 and December 31, 2019, respectively. Goodwill was allocated based on the relative fair value of the European-based Forest Products Resins businesses, included in the Held for Sale Business, which is part of the Company’s Forest Product Resins reporting unit. Other intangible assets were specifically identified based on customer relationships within the Company’s Forest Products Resins reporting unit that are associated with the Held for Sale Business.

As a result of entering into the Purchase Agreement, the Company recognized a pre-tax charge of $75 within discontinued operations, representing the difference between the fair value of the Held for Sale Business, less costs to sell, and the carrying value of net assets held for sale as of September 30, 2020. Fair value represents the expected net cash proceeds, excluding any future contingent proceeds, from the sale of the Held for Sale Business. The Company has made an accounting policy election to account for the initial and subsequent measurement of the future contingent proceeds, of up to $90, as a gain contingency. Under this model, any future contingent consideration is not recognized until all future conditions are met and the Company has earned the proceeds. The contingent proceeds are based on performance targets of the Held for Sale Business over each of the next three years, as specified in the Purchase Agreement. Thus, for purposes of this impairment analysis the fair value of the future contingent proceeds was not considered in determination of the disposal group impairment. Further, the Company concluded that the impairment of the Held for Sale Business assets did not represent an impairment triggering event for the Company’s continuing operations.

The following table reconciles the carrying amounts of major classes of assets and liabilities of discontinued operations to total assets and liabilities of discontinued operations that are classified as held for sale in the Company's unaudited Condensed Consolidated Balance Sheets:

	September 30, 2020	December 31, 2019
Carrying amounts of major classes of assets held for sale:		
Accounts receivable	$ 59	$ 49
Finished and in-process goods	17	21
Raw materials and supplies	17	18
Other current assets	10	11
Total current assets	103	99
Investment in unconsolidated entities	5	3
Other long-term assets	7	11
Property, plant and equipment, net	293	297
Operating lease assets	13	12
Goodwill	14	14
Other intangible assets, net	61	63
Discontinued operations impairment	(75)	—
Total long-term assets	318	400
Total assets held for sale	$ 421	$ 499
Carrying amounts of major classes of liabilities held for sale:		
Accounts payable	$ 48	$ 52
Income taxes payable	2	—
Accrued payroll	5	5
Current portion of operating lease liabilities	2	2
Other current liabilities	10	10
Total current liabilities	67	69
Long-term pension and post employment benefit obligations	30	29
Deferred income taxes	16	15
Operating lease liabilities	5	4
Other long-term liabilities	8	8
Total long-term liabilities	59	56
Total liabilities held for sale	$ 126	$ 125

The following table shows the financial results of discontinued operations for the periods presented:

	Successor		Predecessor	Successor		Predecessor
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019
Major line items constituting pretax income of discontinued operations:						
Net sales	$ 120	$ 149	$ —	$ 360	$ 149	$ 309
Cost of sales (exclusive of depreciation and amortization)	100	130	—	301	130	263
Selling, general and administrative expense	11	8	—	33	8	17
Depreciation and amortization	8	7	—	26	7	9
Asset impairments	75	—	—	75	—	—
Business realignment costs	—	1	—	1	1	1
Other operating expense (income), net	—	1	—	—	1	(1)
Operating (loss) income	(74)	2	—	(76)	2	20
Reorganization items, net	—	—	(135)	—	—	(135)
Other non-operating expense, net	1	—	—	1	—	—
(Loss) income from discontinued operations before income tax, earnings from unconsolidated entities	(75)	2	135	(77)	2	155
Income tax expense	2	1	16	3	1	21
(Loss) income from discontinued operations, net of tax	$ (77)	$ 1	$ 119	$ (80)	$ 1	$ 134
Earnings from unconsolidated entities, net of tax	1	—	—	1	—	1
Net (loss) income attributable to discontinued operations	$ (76)	$ 1	$ 119	$ (79)	$ 1	$ 135

Equity Method Investments

The Company's 50% ownership interest in the Russia JV, accounted for using the equity method of accounting, is included in the Held for Sale Business. Summarized financial data for the Russia JV are shown in the following tables:

	September 30, 2020	December 31, 2019
Current assets	$ 7	$ 9
Non-current assets	1	1
Current liabilities	2	11
Non-current liabilities	7	12

	Successor		Predecessor	Successor		Predecessor
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019
Net sales	$ 8	$ 10	$ —	$ 25	$ 10	$ 18
Gross profit	3	2	—	9	2	4
Pre-tax income	1	—	—	3	—	2
Net income	—	—	—	2	—	2

5. Asset Impairments

During the first quarter of 2020, the Company indefinitely idled certain assets within its Adhesives segment. These represented triggering events resulting in impairment evaluations of the fixed assets within both the oilfield and phenolic specialty resins asset groups. As a result, asset impairments totaling $16 were recorded in “Asset impairments” in the unaudited Condensed Consolidated Statements of Operations during the Successor nine months ended September 30, 2020. See Note 4 for discussion of the discontinued operations impairment charge recorded in the third quarter of 2020.

6. Related Party Transactions

Transactions with Apollo

As of the Company's emergence from bankruptcy on July 1, 2019, Apollo is no longer a related party to the Company. Sales to various Apollo affiliates were $1 for the Predecessor period January 1, 2019 through July 1, 2019. There were no purchases during the Predecessor period January 1, 2019 through July 1, 2019.

Management Consulting Agreement

The Company was party to a Management Consulting Agreement with Apollo (the "Management Consulting Agreement") pursuant to which the Company received certain structuring and advisory services from Apollo and its affiliates. Apollo was entitled to an annual fee equal to the greater of $3 or 2% of the Company's Adjusted EBITDA. In conjunction with the Company's Chapter 11 proceedings and the Support Agreement filed on April 1, 2019, Apollo agreed to waive its annual management fee for 2019. In connection with the Company's emergence from Chapter 11, the Management Consulting Agreement was terminated pursuant to the Confirmation Order, as of the Effective Date.

Transactions with MPM

As of May 15, 2019, Momentive Performance Materials ("MPM") is no longer under the common control of Apollo and no longer a related party to the Company. There were no products sold to MPM during the Predecessor period January 1, 2019 through July 1, 2019. During the Predecessor period January 1, 2019 through July 1, 2019, the Company earned less than $1 from MPM as compensation for acting as distributor of products and had purchases of $10.

Shared Services Agreement

The Company previously held a shared services agreement with MPM (the "Shared Services Agreement"). Under this agreement, the Company provided to MPM, and MPM provided to the Company, certain services, including, but not limited to, executive and senior management, administrative support, human resources, information technology support, accounting, finance, legal and procurement services. On March 14, 2019, MPM terminated the Shared Services Agreement, which triggered a transition period for the parties to work together to facilitate an orderly transition of services. The transition of services was completed on September 1, 2020. During the Predecessor period January 1, 2019 through July 1, 2019 the Company incurred approximately $15 of net costs for shared services and MPM incurred approximately $14 of net costs for shared services. Included in the net costs incurred during the Predecessor period January 1, 2019 through July 1, 2019 were net billings from Hexion to MPM of $11.

Other Transactions and Arrangements

In March 2020, the Company entered into a $10 short term affiliate loan with its Parent at a 0% interest rate to fund Parent share repurchases. In June 2020, the Company made a $10 non-cash distribution to its Parent treated as a return of capital to settle this affiliate loan. This return of capital reduced "Paid-in capital" in the unaudited Condensed Consolidated Balance Sheet at September 30, 2020.

The Company sells products and provides services to, and purchases products from, its joint ventures which are recorded under the equity method of accounting. Refer to the below table for a summary of the sales and purchases with the Company and its joint ventures which are recorded under the equity method of accounting:

	Successor		Successor		Predecessor
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019
Sales to joint ventures [1][2]	$ 1	$ —	$ 2	$ —	$ 2
Purchases from joint ventures [1]	<1	1	1	1	2

(1) There were no sales to joint ventures or purchases from joint ventures for the Predecessor period July 1, 2019.

(2) Sales to joint ventures is primarily comprised of sales to the Russia JV included in the Held for Sale Business. Sales to the Company's other joint ventures were less than $1 in all Successor and Predecessor periods presented.

	September 30, 2020	December 31, 2019
Accounts receivable from joint ventures[1]	$ 1	$ 1
Accounts payable to joint ventures	—	<1

(1) Accounts receivable from joint ventures is mostly comprised of receivables from the Russia JV included in the Held for Sale Business. Accounts receivable from the Company's other joint ventures was less than $1 for both September 30, 2020 and December 31, 2019.

In addition to the accounts receivable from joint ventures disclosed above, the Company had a loan receivable of $5 and $7 as of September 30, 2020 and December 31, 2019, respectively, from the Russia JV. These loan receivables have been included in “Long-term assets held for sale” within the unaudited Condensed Consolidated Balance Sheets.

7. Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurement provisions establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This guidance describes three levels of inputs that may be used to measure fair value:

- **Level 1:** Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- **Level 2:** Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date.
- **Level 3:** Unobservable inputs that are supported by little or no market activity and are developed based on the best information available in the circumstances. For example, inputs derived through extrapolation or interpolation that cannot be corroborated by observable market data.

Derivative Financial Instruments

The Company is exposed to certain risks related to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk, foreign currency exchange risk and commodity price risk. The Company does not hold or issue derivative financial instruments for trading purposes.

Recurring Fair Value Measurements

As of September 30, 2020, the Company had derivative assets related to foreign exchange, electricity and natural gas contracts of $1, which were measured using Level 2 inputs, and consisted of derivative instruments transacted primarily in over-the-counter markets. There were no transfers between Level 1, Level 2 or Level 3 measurements during the Successor nine months ended September 30, 2020, or the Successor period July 2, 2019 through September 30, 2019, and the Predecessor period from January 1, 2019 through July 1, 2019.

The Company calculates the fair value of its Level 2 derivative liabilities using standard pricing models with market-based inputs, adjusted for nonperformance risk. When its financial instruments are in a liability position, the Company evaluates its credit risk as a component of fair value. At both September 30, 2020 and December 31, 2019, no adjustment was made by the Company to reduce its derivative position for nonperformance risk.

When its financial instruments are in an asset position, the Company is exposed to credit loss in the event of nonperformance by other parties to these contracts and evaluates their credit risk as a component of fair value.

Interest Rate Swap

The Company will from time to time use interest rate swaps to alter interest rate exposures between floating and fixed rates on certain long-term debt. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated using an agreed-upon notional principal amount. The counter-parties to the interest rate swap agreements are financial institutions with investment grade ratings.

In October 2019, the Company executed an interest rate swap syndication agreement where by Hexion receives a variable 3-month LIBOR, and pays fixed interest rate swaps, beginning January 1, 2020 through January 1, 2025 (the “Hedge”) for a total notional amount of $300. The purpose of this arrangement is to hedge the variability caused by quarterly changes in cash flow due to associated changes in LIBOR for $300 of the Company’s variable rate Senior Secured Term Loan denominated in USD ($716 outstanding at September 30, 2020). The Company has evaluated this transaction and designated this derivative instrument as a cash flow hedge under Accounting Standard Codification, No. 815, “Derivatives and hedging,” (“ASC 815”). For the Hedge, the Company records changes in the fair value of the derivative in other comprehensive income (“OCI”) and will subsequently reclassify gains and losses from these changes in fair value from OCI to the unaudited Condensed Consolidated Statement of Operations in the same period that the hedged transaction affects net (loss) income and in the same unaudited Condensed Consolidated Statement of Operations category as the hedged item, “Interest expense, net”.

The following tables summarize the Company’s derivative financial instrument designated as a hedging instrument:

		September 30, 2020		December 31, 2019	
	Balance Sheet Location	**Notional Amount**	**Fair Value Liability**	**Notional Amount**	**Fair Value Asset**
Derivatives designated as hedging instruments					
Interest Rate Swap	Other current (liabilities)/assets	$ 300	$ (16)	$ 300	$ 3
Total derivatives designated as hedging instruments			$ (16)		$ 3

Derivatives designated as hedging instruments	Amount of Loss Recognized in OCI on Derivatives — Successor: Three Months Ended September 30, 2020	Successor: July 2, 2019 through September 30, 2019	Predecessor: July 1, 2019	Successor: Nine Months Ended September 30, 2020	Successor: July 2, 2019 through September 30, 2019	Predecessor: January 1, 2019 through July 1, 2019
Interest Rate Swaps						
Interest Rate Swap	$ (1)	$ —	$ —	$ (19)	$ —	$ —
Total	$ (1)	$ —	$ —	$ (19)	$ —	$ —

In both the Successor three and nine months ended September 30, 2020, the Company reclassified a loss of $1, respectively, from OCI to "Interest expense, net" on the Condensed Consolidated Statement of Operations related to the settlement of a portion of the Hedge.

Interest Rate Cap

In 2019, the Company executed an interest rate cap derivative instrument for a premium amount of less than $1. This instrument is a derivative under ASC 815 that does not qualify for hedge accounting and as a result, changes in fair value are recognized within earnings throughout the term of the instrument. For the Successor three and nine months ended September 30, 2020, the Company recognized an unrealized loss of less than $1 for the change in fair value of the instrument, which is included in "Other operating expense, net" in the unaudited Condensed Consolidated Statement of Operations.

Non-derivative Financial Instruments

The following table summarizes the carrying amount and fair value of the Company's non-derivative financial instruments:

	Carrying Amount	Fair Value: Level 1	Level 2	Level 3	Total
September 30, 2020					
Debt	$ 1,833	$ —	$ 1,791	$ 54	$ 1,845
December 31, 2019					
Debt	$ 1,785	$ —	$ 1,751	$ 64	$ 1,815

Fair values of debt classified as Level 2 are determined based on other similar financial instruments, or based upon interest rates that are currently available to the Company for the issuance of debt with similar terms and maturities. Level 3 amounts represent finance leases and sale leaseback financing arrangements whose fair value is determined through the use of present value and specific contract terms. The carrying amount and fair value of the Company's debt is exclusive of unamortized deferred financing fees. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities are classified as Level 1 and are considered reasonable estimates of their fair values due to the short-term maturity of these financial instruments.

8. Debt Obligations

Debt outstanding at September 30, 2020 and December 31, 2019 is as follows:

	September 30, 2020: Long-Term	September 30, 2020: Due Within One Year	December 31, 2019: Long-Term	December 31, 2019: Due Within One Year
Senior Secured Credit Facilities:				
ABL Facility	$ 67	$ —	$ —	$ —
Senior Secured Term Loan - USD due 2026 (includes $6 and $7, respectively, of unamortized debt discount)	703	7	708	7
Senior Secured Term Loan - EUR due 2026 (includes $4 of unamortized debt discount)	494	—	473	—
Senior Notes:				
7.875% Senior Notes due 2027	450	—	450	—
Other Borrowings:				
Australia Facility due 2021	—	28	27	4
Brazilian bank loans	3	15	7	34
Lease obligations (1)	39	15	50	14
Other	—	12	—	11
Total	$ 1,756	$ 77	$ 1,715	$ 70

(1) Lease obligations include finance leases and sale leaseback financing arrangements.

9. Commitments and Contingencies

Environmental Matters

The Company's operations involve the use, handling, processing, storage, transportation and disposal of hazardous materials. The Company is subject to extensive environmental regulation at the federal, state and local levels as well as foreign laws and regulations, and is therefore exposed to the risk of claims for environmental remediation or restoration. In addition, violations of environmental laws or permits may result in restrictions being imposed on operating activities, substantial fines, penalties, damages or other costs, any of which could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

The following table summarizes all probable environmental remediation, indemnification and restoration liabilities, including related legal expenses, at September 30, 2020 and December 31, 2019:

	Liability		Range of Reasonably Possible Costs at September 30, 2020	
Site Description	**September 30, 2020(1)**	**December 31, 2019(1)**	**Low**	**High**
Geismar, LA	$ 12	$ 12	$ 9	$ 22
Superfund and offsite landfills – allocated share:				
Less than 1%	3	3	2	6
Equal to or greater than 1%	6	6	5	14
Currently-owned	9	8	4	14
Formerly-owned:				
Remediation	19	21	16	37
Monitoring only	—	1	—	1
Total	$ 49	$ 51	$ 36	$ 94

(1) The table includes approximately $2 of environmental remediation liabilities related to the Held for Sale Business at both September 30, 2020 and December 31, 2019. These associated liabilities have been included in "Long-term liabilities associated with assets held for sale" within the unaudited Condensed Consolidated Balance Sheets.

These amounts include estimates for unasserted claims that the Company believes are probable of loss and reasonably estimable. The estimate of the range of reasonably possible costs is less certain than the estimates upon which the liabilities are based. To establish the upper end of a range, assumptions less favorable to the Company among the range of reasonably possible outcomes were used. As with any estimate, if facts or circumstances change, the final outcome could differ materially from these estimates. At September 30, 2020 and December 31, 2019, $15 and $18 of these liabilities have been included in "Other current liabilities" with the remaining amount included in "Other long-term liabilities" within the unaudited Condensed Consolidated Balance Sheets.

Following is a discussion of the Company's environmental liabilities and the related assumptions at September 30, 2020:

Geismar, LA Site—The Company formerly owned a basic chemicals and polyvinyl chloride business that was taken public as Borden Chemicals and Plastics Operating Limited Partnership ("BCPOLP") in 1987. The Company retained a 1% interest, the general partner interest and the liability for certain environmental matters after BCPOLP's formation. Under a Settlement Agreement approved by the United States Bankruptcy Court for the District of Delaware among the Company, BCPOLP, the United States Environmental Protection Agency and the Louisiana Department of Environmental Quality, the Company agreed to perform certain tasks related to BCPOLP's obligations for soil and groundwater contamination at BCPOLP's Geismar, Louisiana site. The Company bears the sole responsibility for these obligations because there are no other potentially responsible parties ("PRP") or third parties from whom the Company could seek reimbursement.

A groundwater pump and treat system to remove contaminants is operational, and natural attenuation studies are proceeding. If closure procedures and remediation systems prove to be inadequate, or if additional contamination is discovered, costs that would approach the higher end of the range of possible outcomes could result.

Due to the long-term nature of the project, the reliability of timing and the ability to estimate remediation payments, a portion of this liability was recorded at its net present value, assuming a 3% discount rate and a time period of 20 years. The range of possible outcomes is discounted in a similar manner. The undiscounted liability, which is expected to be paid over the next 20 years, is approximately $16. Over the next five years, the Company expects to make ratable payments totaling $6.

Superfund Sites and Offsite Landfills—The Company is currently involved in environmental remediation activities at a number of sites for which it has been notified that it is, or may be, a PRP under the United States Comprehensive Environmental Response, Compensation and Liability Act or similar state "superfund" laws. The Company anticipates approximately 50% of the estimated liability for these sites will be paid within the next five years, with the remainder over the next twenty-five years. The Company generally does not bear a significant level of responsibility for these sites, and as a result, has little control over the costs and timing of cash flows.

The Company's ultimate liability will depend on many factors including its share of waste volume, the financial viability of other PRPs, the remediation methods and technology used, the amount of time necessary to accomplish remediation and the availability of insurance coverage. The range of possible outcomes takes into account the maturity of each project, resulting in a more narrow range as the project progresses. To estimate both its current reserves for environmental remediation at these sites and the possible range of additional costs, the Company has not assumed that it will bear the entire cost of remediation of every site to the exclusion of other known PRPs who may be jointly and severally liable. The Company has limited information to assess the viability of other PRPs and their probable contribution on a per site basis. The Company's insurance provides very limited, if any, coverage for these environmental matters.

Sites Under Current Ownership—The Company is conducting environmental remediation at a number of locations that it currently owns, of which ten sites are no longer in operation. As the Company is performing a portion of the remediation on a voluntary basis, it has some control over the costs to be incurred and the timing of cash flows. The factors influencing the ultimate outcome include the methods of remediation elected, the conclusions and assessment of site studies remaining to be completed, and the time period required to complete the work. No other parties are responsible for remediation at these sites.

Formerly-Owned Sites—The Company is conducting, or has been identified as a PRP in connection with, environmental remediation at a number of locations that it formerly owned and/or operated. Remediation costs at these former sites, such as those associated with the Company's former phosphate mining and processing operations, could be material. The Company has accrued those costs for formerly-owned sites which are currently probable and reasonably estimable. One such site is the Coronet Industries, Inc. Superfund Alternative Site in Plant City, Florida. The current owner of the site alleged that it incurred environmental costs at the site for which it has a contribution claim against the Company, and that additional future costs are likely to be incurred. The Company signed a settlement agreement in 2016 with the current site owner and a past site owner, pursuant to which the Company paid $10 for past remediation costs and accepted a 40% allocable share of specified future remediation costs at this site. The Company estimates its allocable share of future remediation costs to be approximately $9. The final costs to the Company will depend on natural variations in remediation costs, including unforeseen circumstances, agency requests, new contaminants of concern and the ongoing financial viability of the other PRPs.

Monitoring Only Sites—The Company is responsible for a number of sites that require monitoring where no additional remediation is expected. The Company has established reserves for costs related to these sites. Payment of these liabilities is anticipated to occur over the next ten or more years. The ultimate cost to the Company will be influenced by fluctuations in projected monitoring periods or by findings that are different than anticipated.

Indemnifications—In connection with the acquisition of certain of the Company's operating businesses, the Company has been indemnified by the sellers against certain liabilities of the acquired businesses, including liabilities relating to both known and unknown environmental contamination arising prior to the date of the purchase. The indemnifications may be subject to certain exceptions and limitations, deductibles and indemnity caps. While it is reasonably possible that some costs could be incurred, except for those sites identified above, the Company has inadequate information to allow it to estimate a potential range of liability, if any.

Non-Environmental Legal Matters

The Company's continuing operations is involved in various legal proceedings in the ordinary course of business and had reserves of $1 and $1 at September 30, 2020 and December 31, 2019, respectively, for all non-environmental legal defense costs incurred and settlement costs that it believes are probable and estimable. At September 30, 2020 and December 31, 2019, $1 and $1, respectively, has been included in "Other current liabilities" in the unaudited Condensed Consolidated Balance Sheets, with the remaining amount included in "Other long-term liabilities."

Other Legal Matters—The Company is also involved in various product liability, commercial and employment litigation, personal injury, property damage and other legal proceedings, including actions that allege harm caused by products the Company has allegedly made or used, containing silica, vinyl chloride monomer and asbestos. The Company believes it has adequate reserves and that it is not reasonably possible that a loss exceeding amounts already reserved would be material. Furthermore, the Company has insurance to cover claims of these types.

Other Commitments and Contingencies

The Company has contractual agreements with third parties to purchase feedstocks, tolling arrangements or other services. The terms of these different agreements can vary and may be extended at the Company's request and are cancellable by either party as provided for in each agreement. While the agreements vary by scope and terms, early cancellation of contractual agreements could result in one-time contract termination costs.

10. Pension and Postretirement Benefit Plans

The Company's service cost component of net benefit cost is included in "Operating income" and all other components of net benefit cost are included in "Other non-operating income, net" within the Company's unaudited Condensed Consolidated Statements of Operations. The Company recognized less than $1 of net non-pension postretirement benefit cost for both the Successor three and nine months ended September 30, 2020, the Successor period ended July 2, 2019 through September 30, 2019 and for the Predecessor July 1, 2019, January 1, 2019 through July 1, 2019.

Following are the components of net pension benefit cost recognized by the Company for the Successor three and nine months ended September 30, 2020, July 2, 2019 through September 30, 2019 and for the Predecessor July 1, 2019, January 1, 2019 through July 1, 2019:

	Pension Benefits					
	Successor				Predecessor	
	Three Months Ended September 30, 2020		July 2, 2019 through September 30, 2019		July 1, 2019	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$ 1	$ 4	$ 1	$ 3	$ —	$ —
Interest cost on projected benefit obligation	1	2	1	1	—	—
Expected return on assets	(3)	(4)	(3)	(2)	—	—
Net (benefit) expense(1)	$ (1)	$ 2	$ (1)	$ 2	$ —	$ —

	Pension Benefits					
	Successor				Predecessor	
	Nine Months Ended September 30, 2020		July 2, 2019 through September 30, 2019		January 1, 2019 through July 1, 2019	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$ 2	$ 13	$ 1	$ 3	$ 2	$ 7
Interest cost on projected benefit obligation	4	5	1	1	4	4
Expected return on assets	(9)	(10)	(3)	(2)	(6)	(6)
Net (benefit) expense(1)	$ (3)	$ 8	$ (1)	$ 2	$ —	$ 5

(1) Includes less than $1 of net pension expense for non-U.S. plans related to the Held for Sale Business during the three and nine months ended September 30, 2020 and Successor period July 2, 2019 through September 30, 2019 and the Predecessor period January 1, 2019 through July 1, 2019, respectively. These associated costs have been included in "(Loss) income from discontinued operations, net of taxes" within the unaudited Condensed Consolidated Statements of Operations.

11. Stock Based Compensation

The Company grants stock-based compensation to employees, directors, and other key service providers under the Hexion Holdings Corporation 2019 Omnibus Incentive Plan (the "2019 Incentive Plan"). Under the 2019 Incentive Plan, the Company may grant stock options, restricted stock units, performance stock units and other equity-based awards to be awarded from time to time as the Board of Directors of Hexion Holdings (the "Board") determines. The restricted and performance stock units are deemed to be equivalent to one share of common stock of Hexion Holdings. The awards contain restrictions on transferability and other typical terms and conditions.

In the first quarter of 2020, Hexion Holdings granted 821,758 Restricted Stock Units ("RSUs") to certain employees and non-employee directors that time vest over three years with a weighted average grant date fair value of $15.80 per share. Additionally, Hexion Holdings granted 823,619 Performance Stock Units ("PSUs") to certain employees that vest based on performance conditions with a weighted average grant date fair value of $15.80. Compensation cost will be recognized over the service period of the PSUs once the satisfaction of the applicable performance condition is deemed probable. As of September 30, 2020, the Company's performance conditions underlying the PSU's were not considered probable of occurring and thus no PSU expense has been recorded.

The Company recognized $4 and $13 of stock-based compensation costs for the Successor three and nine months ended September 30, 2020, respectively and $5 for the Successor period July 2, 2019 through September 30, 2019. There were no stock-based compensation cost recognized during the Predecessor period January 1, 2019 through July 1, 2019. The amounts are included in "Selling, general and administrative expense" in the Condensed Consolidated Statements of Operations.

The Company's Parent had 57,756,630 shares of common stock outstanding as of September 30, 2020.

12. Segment Information

Realignment of Reportable Segments in 2020

As part of the Company’s continuing efforts to drive growth and greater operating efficiencies, in January 2020, the Company changed its reporting segments to align around its two growth platforms: (i) Adhesives and (ii) Coatings and Composites. At September 30, 2020, the Company’s continuing operations has three reportable segments, which consist of the following businesses:

- **Adhesives**: these businesses focus on the global adhesives market. They include the Company’s global wood adhesives business, which now also includes the oilfield technologies group, including: forest products resin assets in North America, Latin America, Australia and New Zealand; and global formaldehyde.

- **Coatings and Composites**: these businesses focus on the global coatings and composites market. They include the Company’s base and specialty epoxy resins and Versatic™ Acids and Derivatives businesses.

- **Corporate and Other**: primarily corporate general and administrative expenses that are not allocated to the other segments, such as shared service and administrative functions and foreign exchange gains and losses.

The Company has recast its Net Sales and Segment EBITDA (as defined below) for the Successor period July 2, 2019 through September 30, 2019 and for the Predecessor periods July 1, 2019 and January 1, 2019 through July 1, 2019 to reflect the new reportable segments.

Reportable Segments

Following are net sales and Segment EBITDA for continuing operations by reportable segment. Segment EBITDA is defined as EBITDA (earnings before interest, income taxes, depreciation and amortization) adjusted for certain non-cash items and other income and expenses. Segment EBITDA is the primary performance measure used by the Company’s senior management, the chief operating decision-maker and the Board of Directors to evaluate operating results and allocate capital resources among segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation goals. Corporate and Other is primarily corporate general and administrative expenses that are not allocated to the other segments, such as shared service and administrative functions and foreign exchange gains and losses not allocated to continuing segments.

Net Sales [(1)]:

Following is continuing operations revenue by reportable segment. Product sales within each reportable segment share economically similar risks. These risks include general economic and industrial conditions, competitive pricing pressures and the Company’s ability to pass on fluctuations in raw material prices to its customers. A substantial number of the Company’s raw material inputs are petroleum-based and their prices fluctuate with the price of oil. Due to differing regional industrial and economic conditions, the geographic distribution of revenue may impact the amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Following is net sales by reportable segment disaggregated by geographic region:

	Successor						Predecessor		
	Three Months Ended September 30, 2020			July 2, 2019 through September 30, 2019			7/1/2019		
	Adhesives	Coatings and Composites	Total	Adhesives	Coatings and Composites	Total	Adhesives	Coatings and Composites	Total
North America	$ 221	$ 122	$ 343	$ 269	$ 138	$ 407	$ —	$ —	$ —
Europe	5	132	137	6	124	130	—	—	—
Asia Pacific	34	87	121	39	70	109	—	—	—
Latin America	33	—	33	47	—	47	—	—	—
Total	$ 293	$ 341	$ 634	$ 361	$ 332	$ 693	$ —	$ —	$ —

	Successor						Predecessor		
	Nine Months Ended September 30, 2020			July 2, 2019 through September 30, 2019			January 1, 2019 through July 1, 2019		
	Adhesives	Coatings and Composites	Total	Adhesives	Coatings and Composites	Total	Adhesives	Coatings and Composites	Total
North America	$ 670	$ 379	$ 1,049	$ 269	$ 138	$ 407	$ 562	$ 286	$ 848
Europe	14	393	407	6	124	130	15	305	320
Asia Pacific	96	209	305	39	70	109	81	129	210
Latin America	94	—	94	47	—	47	103	—	103
Total	$ 874	$ 981	$ 1,855	$ 361	$ 332	$ 693	$ 761	$ 720	$ 1,481

(1) Intersegment sales are not significant and, as such, are eliminated within the selling segment.

Reconciliation of Net Loss to Segment EBITDA:

	Successor		Predecessor	Successor		Predecessor
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019
Reconciliation:						
Net (loss) income attributable to Hexion Inc.	$ (102)	$ (43)	$ 3,054	$ (203)	$ (43)	$ 2,894
Add: Net income attributable to noncontrolling interest	—	—	—	—	—	1
Less: Net (loss) income from discontinued operations	(76)	1	119	(79)	1	135
Net (loss) income from continuing operations	$ (26)	$ (44)	$ 2,935	$ (124)	$ (44)	$ 2,760
Income tax expense (benefit)	17	(5)	191	8	(5)	201
Interest expense, net	25	28	—	76	28	89
Depreciation and amortization (1)	47	48	—	143	48	43
EBITDA	63	27	3,126	103	27	3,093
Adjustments to arrive at Segment EBITDA:						
Asset impairments	$ —	$ —	$ —	$ 16	$ —	$ —
Business realignment costs (2)	19	12	—	57	12	14
Transaction costs (3)	1	5	—	4	5	26
Realized and unrealized foreign currency (gains) losses	(3)	9	—	2	9	(7)
Reorganization items, net (4)	—	—	(3,099)	—	—	(2,943)
Non-cash impact of inventory step-up (5)	—	27	(27)	—	27	(27)
Other non-cash items (6)	6	1	—	29	1	9
Other (7)	5	5	18	9	5	36
Total adjustments	28	59	(3,108)	117	59	(2,892)
Segment EBITDA	$ 91	$ 86	$ 18	$ 220	$ 86	$ 201
Segment EBITDA (8):						
Adhesives	$ 58	$ 59	$ 18	$ 156	$ 59	$ 135
Coatings and Composites	50	44	—	115	44	96
Corporate and Other	(17)	(17)	—	(51)	(17)	(30)
Total	$ 91	$ 86	$ 18	$ 220	$ 86	$ 201

(1) For the nine months ended September 30, 2020, accelerated depreciation of $2 has been included in "Depreciation and amortization."

(2) Business realignment costs for the Successor and Predecessor periods below included:

	Successor		Predecessor	Successor		Predecessor
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019
Severance costs	$ 4	$ 4	$ —	$ 15	$ 4	$ 8
In-process facility rationalizations	5	3	—	13	3	3
Business services implementation	6	—	—	17	—	—
Legacy environmental reserves	4	4	—	8	4	1
Other	—	1	—	4	1	2

(3) For the Successor three and nine months ended September 30, 2020, transaction costs included certain professional fees related to strategic projects. For the Successor period from July 2, 2019 through September 30, 2019 and the Predecessor period from January 1, 2019 through July 1, 2019, transaction costs primarily included $4 and $23, respectively, of certain professional fees and other expenses related to the Company's Chapter 11 proceedings.

(4) Represents incremental costs incurred directly as a result of the Company's Chapter 11 proceedings after the date of filing, gains on settlement of liabilities under the Plan and the net impact of fresh start accounting adjustments. The amounts excludes the "Non-cash impact of inventory step-up" discussed below.

(5) Represents $27 of non-cash expense related to the step up of finished goods inventory on July 1 as part of fresh start accounting that was expensed in the successor period upon the sale of the inventory.

(6) Other non-cash items for the Successor and Predecessor periods presented below included:

	Successor		Predecessor	Successor		Predecessor
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019
Fixed asset write-offs	$ —	$ —	$ —	$ 6	$ —	$ 3
Stock-based compensation costs	4	5	—	13	5	—
Long-term retention programs	1	—	—	7	—	5
One-time capitalized variance impact of inventory fresh start step-up	—	(4)	—	—	(4)	—
Other	1	—	—	3	—	1

(7) Other for Successor and Predecessor periods presented below included:

	Successor		Predecessor	Successor		Predecessor
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019
Legacy expenses	$ 2	$ 4	$ —	$ 7	$ 4	$ 3
IT outage (recoveries) costs, net	—	(1)	—	(4)	(1)	9
Management fees and other	3	2	—	6	2	6
Accelerated deferred revenue	—	—	18	—	—	18

13. Changes in Accumulated Other Comprehensive Loss

Following is a summary of changes in “Accumulated other comprehensive loss” for the Successor three and nine months ended September 30, 2020. The Successor period July 2, 2019 through September 30, 2019 and the Predecessor period January 1, 2019 through July 1, 2019:

	Defined Benefit Pension and Postretirement Plans	Foreign Currency Translation Adjustments	Cash Flow Hedge	Total
Predecessor				
Balance at December 31, 2018	$ (1)	$ (17)	$ —	$ (18)
Change in value	—	(8)	—	(8)
Eliminiation of Predecessor Company accumulated other comprehensive loss	1	25	—	26
Balance at July 1, 2019	$ —	$ —	$ —	$ —
Successor				
Balance at July 2, 2019	$ —	$ —	$ —	$ —
Change in value	—	(16)	—	(16)
Balance at September 30, 2019	$ —	$ (16)	$ —	$ (16)
Balance at June 30, 2020	$ —	$ (39)	$ (16)	$ (55)
Change in value	—	7	(1)	6
Balance at September 30, 2020	$ —	$ (32)	$ (17)	$ (49)
Balance at December 31, 2019	$ —	$ (3)	$ 2	$ (1)
Change in value	—	(29)	(19)	(48)
Balance at September 30, 2020	$ —	$ (32)	$ (17)	$ (49)

14. Income Taxes

The income tax expense (benefit) for the Successor three months ended September 30, 2020, July 2, 2019 through September 30, 2019, and for the Predecessor period July 1, 2019 was $17, $(5) and $191 respectively. The income tax expense (benefit) for the Successor nine months ended September 30, 2020, July 2, 2019 through September 30, 2019, and for the Predecessor period January 1, 2019 through July 1, 2019 was $8, $(5), $201 respectively. The income tax (benefit) expense is comprised of tax expense on income and tax benefit on losses from certain foreign operations. In 2020 and 2019, losses in the United States and certain foreign jurisdictions had no impact on income tax expense as no tax benefit was recognized due to the maintenance of a full valuation allowance.

The effective tax rate for the Successor three months ended September 30, 2020, July 2, 2019 through September 30, 2019, and for the Predecessor period July 1, 2019 was (189)%, 10% and 6%, respectively. The effective tax rate for the Successor nine months ended September 30, 2020, July 2, 2019 through September 30, 2019, and for the Predecessor period January 1, 2019 through July 1, 2019 was (7)%, 10% and 7%, respectively. The change in the effective tax rate was primarily attributable to the amount and distribution of income and losses among the various jurisdictions in which the Company operates. The effective tax rates were also impacted by operating gains and losses generated in jurisdictions where no tax expense or benefit was recognized due to the maintenance of a full valuation allowance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

The following commentary should be read in conjunction with the audited Consolidated Financial Statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's most recent Annual Report on Form 10-K.

Within the following discussion, unless otherwise stated, "the third quarter of 2020" refers to the three months ended September 30, 2020 and "the third quarter of 2019" refers to the three months ended September 30, 2019, "the first nine months of 2020" refers to the nine months ended September 30, 2020 and "the first nine months of 2019" refers to the nine months ended September 30, 2019.

Forward-Looking and Cautionary Statements

Certain statements in this report, including without limitation, certain statements made under the caption "Overview and Outlook," are forward-looking statements within the meaning of and made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, our management may from time to time make oral forward-looking statements. All statements, other than statements of historical facts, are forward-looking statements. Forward-looking statements may be identified by the words "believe," "expect," "anticipate," "project," "might," "plan," "estimate," "may," "will," "could," "should," "seek" or "intend" and similar expressions. Forward-looking statements reflect our current expectations and assumptions regarding our business, the economy and other future events and conditions and are based on currently available financial, economic and competitive data and our current business plans. Actual results could vary materially depending on risks and uncertainties that may affect our operations, markets, services, prices and other factors as discussed in the Risk Factors section of this report and our other filings with the SEC. While we believe our assumptions are reasonable, we caution you against relying on any forward-looking statements as it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, a weakening of global economic and financial conditions, interruptions in the supply of or increased cost of raw materials, the loss of, or difficulties with the further realization of, cost savings in connection with our strategic initiatives, the impact of our indebtedness, our failure to comply with financial covenants under our credit facilities or other debt, pricing actions by our competitors that could affect our operating margins, changes in governmental regulations and related compliance and litigation costs, uncertainties related to COVID-19 and the impact of our responses to it and the other factors listed in the Risk Factors section of this report and in our other SEC filings. For a more detailed discussion of these and other risk factors, see the Risk Factors section of this report and our most recent filings made with the SEC. All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The forward-looking statements made by us speak only as of the date on which they are made. Factors or events that could cause our actual results to differ may emerge from time to time. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Overview and Outlook

COVID-19 Impact

In March 2020, the World Health Organization categorized COVID-19 as a global pandemic. Around the world, local governments' responses to COVID-19 continue to evolve, which has led to stay-at-home orders, social distancing guidelines and other preventative measures that have disrupted various industries in the global economy and the markets in which our products are manufactured, distributed and sold.

During this pandemic, we have implemented additional guidelines to further protect the health and safety of our employees as we continue to operate with our suppliers and customers. We have committed to maintaining a paramount focus on the safety of our employees while minimizing potential disruptions caused by COVID-19. For example we are following all legislatively-mandated travel directives in the various countries where we operate, and we have also put additional travel restrictions in place for our associates designed to reduce the risk from COVID-19. Additionally, we are utilizing extended work from home options to protect our office associates, while adjusting our meeting protocols and processes at our manufacturing sites.

Our businesses have been designated by many governments as essential businesses and our operations have continued through September 30, 2020. While we have continued to operate during the pandemic, we did incur adverse financial impacts to our sales and profitability results during the three and nine months ended September 30, 2020 from COVID-19, primarily related to reduced volumes associated with the pandemic. The pandemic has impacted global economic conditions and lowered demand in many of the end use markets in which the Company operates such as automotive, aerospace, industrial products, oil and gas, construction and housing. The ultimate impact that COVID-19 will have on our future financial position, operating results and cash flows involves numerous risks and uncertainties, including new information which may emerge concerning the severity and duration of COVID-19 and actions to contain the virus or treat its impact.

Business Overview

We are a large participant in the specialty chemicals industry, one of the world's largest producers of thermosetting resins, or thermosets, and a leading producer of adhesive and structural resins and coatings. Thermosets are a critical ingredient for most paints, coatings, glues and other adhesives produced for consumer or industrial uses. We provide a broad array of thermosets and associated technologies and have significant market positions in all of the key markets that we serve.

Our products are used in thousands of applications and are sold into diverse markets, such as forest products, architectural and industrial paints, packaging, consumer products and automotive coatings, as well as higher growth markets, such as wind energy and electrical composites. Major industry sectors that we serve include industrial/marine, construction, consumer/durable goods, automotive, wind energy, aviation, electronics, architectural, civil engineering, repair/remodeling and oil and gas drilling. Key drivers for our business include general economic and industrial conditions, including housing starts and auto build rates. In addition, due to the nature of our products and the markets we serve, competitor capacity constraints and the availability of similar products in the market may impact our results. As is true for many industries, our financial results are impacted by the effect on our customers of economic upturns or downturns, as well as by the impact on our own costs to produce, sell and deliver our products. Our customers use most of our products in their production processes. As a result, factors that impact their industries can and have significantly affected our results.

Through our worldwide network of strategically located production facilities, we serve more than 3,100 customers in approximately 85 countries. Our global customers include large companies in their respective industries, such as Akzo Nobel, BASF, Norbord, Louisiana Pacific, Monsanto, Owens Corning, PPG Industries, Sherwin Williams and Weyerhaeuser.

Sale of Phenolic Specialty Resins Business

On September 27, 2020, we entered into a definitive agreement (the “Purchase Agreement”) for the sale of our Phenolic Specialty Resins ("PSR"), Hexamine and European-based Forest Products Resins businesses (together with PSR, the “Held for Sale Business”) to Black Diamond Capital Management, LLC and Investindustrial (the “Buyers”) for a purchase price of approximately $425. The consideration consists of $335 in cash and certain assumed liabilities with the remainder in future contingent proceeds based on the performance of the Held for Sale Business.

As of September 30, 2020, we reclassified the assets and liabilities of our Held for Sale Business as held for sale on the unaudited Condensed Consolidated Balance Sheets and reported the results of the operations for the three and nine months ended September 30, 2020 as “(Loss) income from discontinued operations, net of taxes” on the unaudited Condensed Consolidated Statements of Operations. Amounts for prior periods have similarly been retrospectively reclassified for all periods presented.

Unless otherwise noted, the tables and discussion below represent the Company’s continuing operations and excludes the Held for Sale Business.

Realignment of Reportable Segments in 2020

As part of our continuing efforts to drive growth and greater operating efficiencies, in January 2020, we changed our reporting segments to align around our two growth platforms: Adhesives; and Coatings and Composites. At September 30, 2020, we have three reportable segments, which consist of the following businesses:

- **Adhesives**: these businesses focus on the global adhesives market. They include the Company’s global wood adhesives business, which now also includes the oilfield technologies group, including: forest products resin assets in North America, Latin America, Australia and New Zealand; and global formaldehyde.

- **Coatings and Composites**: these businesses focus on the global coatings and composites market. They include our base and specialty epoxy resins and Versatic™ Acids and Derivatives businesses.

- **Corporate and Other**: primarily corporate general and administrative expenses that are not allocated to the other segments, such as shared service and administrative functions and foreign exchange gains and losses.

In this quarterly report on form 10-Q, we have recast our Net Sales and Segment EBITDA by reportable segment, for the comparable Successor period July 2, 2019 through September 30, 2019 and for the Predecessor periods July 1, 2019 and January 1, 2019 through July 1, 2019 to reflect the new reportable segments.

Fresh Start Accounting

As a result of the Company’s reorganization and emergence from Chapter 11 on the Effective Date, we applied fresh start accounting to our financial statements, which resulted in a new basis of accounting and we became a new entity for financial reporting purposes. As a result of the application of fresh start accounting and the effects of the implementation of the Plan, the Condensed Consolidated Financial Statements after the Effective Date are not comparable with the Condensed Consolidated Financial Statements prior to that date. References to “Successor” or “Successor Company” relate to the financial position and results of operations of the Company after the Effective Date. References to “Predecessor” or “Predecessor Company” refer to the financial position and results of operations of the Company on or before the Effective Date.

Financial Results Summary

Our financial results for the period from January 1, 2019 through July 1, 2019 are referred to as those of the "Predecessor" period. Our financial results for the period from July 2, 2019 through September 30, 2019 are referred to as those of the "Successor" period. Our results of operations as reported in our Condensed Consolidated Financial Statements for these periods are prepared in accordance with U.S. GAAP, which requires that we report on our results for the period from January 1, 2019 through July 1, 2019 and the period from July 2, 2019 through September 30, 2019 separately.

We do not believe that reviewing the results of these periods in isolation would be useful in identifying any trends in or reaching any conclusions regarding our overall operating performance. Management believes that the key performance metrics such as Net sales, Operating income and Segment EBITDA for the Successor period when combined with the Predecessor period provides more meaningful comparisons to other periods and are useful in identifying current business trends. Accordingly, in addition to presenting our results of operations as reported in our Condensed Consolidated Financial Statements in accordance with U.S. GAAP, the tables and discussions below also present the combined results for the three months and nine months ended September 30, 2019.

The combined results (referenced as "Non-GAAP Combined" or "Combined") for the third quarter ended September 30, 2019 and first nine months ended September 30, 2019, which we refer to herein as results for the "Three Months Ended September 30, 2019" and "Nine Months Ended September 30, 2019" represent the sum of the reported amounts for the Predecessor period July 1, 2019 combined with the Successor period from July 2, 2019 through September 30, 2019 and the Predecessor period from January 1, 2019 through July 1, 2019 combined with the Successor period from July 2, 2019 through September 30, 2019, respectively. These Combined results are not considered to be prepared in accordance with U.S. GAAP and have not been prepared as pro forma results under applicable regulations. The Non-GAAP Combined operating results is presented for supplemental purposes only, may not reflect the actual results we would have achieved absent our emergence from bankruptcy, may not be indicative of future results and should not be viewed as a substitute for the financial results of the Predecessor period and Successor period presented in accordance with U.S. GAAP.

2020 Overview

Following are highlights from our results of continuing operations for the nine months ended September 30, 2020 and 2019:

	Successor		Predecessor	Non-GAAP Combined		
	Nine Months Ended September 30, 2020	**July 2, 2019 through September 30, 2019**	**January 1, 2019 through July 1, 2019**	**Nine Months Ended September 30, 2019**	**$ Change**	**% Change**
Statements of Operations:						
Net sales	$ 1,855	$ 693	$ 1,481	$ 2,174	$ (319)	(15)%
Operating (loss) income	(54)	(18)	68	$ 50	(104)	(208)%
(Loss) income before income tax	(118)	(50)	2,960	$ 2,910	(3,028)	104 %
Net (loss) income from continuing operations	(124)	(44)	2,760	$ 2,716	(2,840)	105 %
Segment EBITDA:						
Adhesives	$ 156	$ 59	$ 135	$ 194	$ (38)	(20)%
Coatings and Composites	115	44	96	$ 140	(25)	(18)%
Corporate and Other	(51)	(17)	(30)	$ (47)	(4)	(9)%
Total	$ 220	$ 86	$ 201	$ 287	$ (67)	(23)%

- ***Net Sales***—In the first nine months of 2020, net sales decreased by $319, or 15%, compared to the first nine months of 2019. COVID-19's global impact on demand across various industries and markets was the main driver of the decrease in net sales. Volumes negatively impacted net sales by $133, which was primarily related to volume decreases in our North American resins and formaldehyde businesses due to weaker demand and in our base epoxy businesses due to overall weakness in the market, primarily in the automotive and construction industries. Pricing negatively impacted sales by $151 due to raw material decreases contractually passed through to customers across many of our businesses, as well as unfavorable product mix and continued competitive market conditions in our base epoxy resins business. Foreign currency translation negatively impacted net sales by $35 due to the weakening of various foreign currencies against the U.S. dollar in the first nine months of 2020 compared to the first nine months of 2019.

- ***Net Loss***—In the first nine months of 2020, net loss from continuing operations increased by $2,840 as compared to the first nine months of 2019. This increase in net loss was mainly driven by a net gain of $2,970 of reorganization items incurred in the first nine months of 2019 as a result of the restructuring of our debt through our Chapter 11 proceedings. The increase was also driven by a reduction in operating income of $104, primarily related to an increase of $52 in depreciation and amortization expense related to the step up of our fixed and intangible assets as a result of the application of fresh-start accounting, $16 of asset impairments in our oilfield and phenolic specialty resins businesses in the first quarter 2020, a $31 increase in business realignment costs driven by higher severance expenses related to current cost reduction actions and a decrease in gross profit due primarily to the impacts of COVID-19 on volumes in our businesses. These were partially offset by a reduction in interest expense of $41 as a result of the restructuring of our debt through our Chapter 11 proceedings.

- ***Segment EBITDA***—For the first nine months of 2020, Segment EBITDA was $220, a decrease of 23% compared with $287 in the first nine months of 2019. This decrease was primarily due to the impacts of COVID-19 on volumes in our businesses, most notably in our base epoxy resins and forest products resins businesses. We also experienced a temporary manufacturing outage at our Pernis site, which negatively impacted our 2020 Segment EBITDA by approximately $8. Additionally, our Corporate and Other charges in the first nine months of 2020 increased by $4 compared to the first nine months of 2019 due primarily to the impact of termination of our Shared Services Agreement with MPM. These Segment EBITDA decreases were partially offset by favorability in our specialty epoxy business driven by strong global demand in wind energy.

- ***Restructuring and Cost Reduction Activities—***During the first nine months of 2020, we achieved $19 in cost savings related to our cost reduction activities. These activities include certain in-process facility rationalizations and the creation of a business service group within the Company to provide certain administrative functions for us going forward. Overall we have $8 of in-process cost savings related to these activities, which we expect to realize over the next 12 months.

Short-term Outlook

We continue to expect negative COVID-19 volume impacts to challenge our business results in certain end markets throughout the remainder of 2020 and into 2021. While our businesses have been designated by many governments as essential businesses which has allowed our operations to continue during the pandemic, we saw weak economic conditions begin to develop in the latter half of March 2020 and through the second quarter, specifically within automotive and certain industrial markets. We saw sequential improvement in the third quarter in many of the industries in which our businesses operate, but overall volumes remain below historical levels. We expect these weaknesses and overall lower global economic demand caused by COVID-19 to negatively impact our sales and profitability results through the remainder of 2020 and into 2021. The ultimate impact that COVID-19 will have on our operating results will depend on the overall severity and duration of the COVID-19 pandemic and actions to contain the virus or treat its impact.

Within our Coatings and Composites segment, despite overall economic headwinds driven by COVID-19, we continue to expect our epoxy specialty business to benefit from government supported investment in the China wind energy market through the remainder of the year, as well as a strong overall global wind energy market. We expect competitive market conditions in our base epoxy business to continue through the remainder of 2020 and into 2021.

Within our Adhesives segment, we anticipate improvement in Segment EBITDA within our North American forest products resins business in the fourth quarter 2020 and into 2021 based on the latest expectations in U.S. housing starts, remodeling and ongoing macroeconomic recovery from the COVID-19 pandemic. We also expect that continued economic recovery will positively impact our North American formaldehyde business in the fourth quarter of 2020 and into 2021.

We also anticipate that our businesses will continue to benefit from the savings associated with our restructuring and cost reduction initiatives. In addition, we expect lower raw material costs to continue to positively impact results across many of our businesses. Further, we are in the process of implementing various efficiency initiatives, which include process improvement and other productivity projects. Lastly, despite the prevailing economic headwinds, the benefits of our new capital structure and decreasing working capital will have a positive impact on free cash flow in 2020 and into 2021.

Matters Impacting Comparability of Results

Chapter 11 Bankruptcy and Fresh Start Accounting Impacts

As a result of the emerging from Chapter 11 and qualifying for the application of fresh-start accounting, at the Effective Date, our assets and liabilities were recorded at their estimated fair values which, in some cases, are significantly different than amounts included in our financial statements prior to the Effective Date. Accordingly, our financial condition and results of operations on and after the Effective Date are not directly comparable to our financial condition and results of operations prior to the Effective Date. The total amount of reorganization and fresh start adjustments, as well as incremental costs incurred related to our Bankruptcy Petitions incurred while we were in bankruptcy resulted in a total gain of $2,970 for our continuing operations, which is classified within “Reorganization items, net” in the unaudited Condensed Consolidated Statements of Operations.

In addition, we incurred costs related to our Chapter 11 proceedings both prior to filing for bankruptcy and post-emergence, which are not classified within “Reorganization items, net” as these costs were not incurred while in bankruptcy. These costs were $4 and $27 for the three and nine months ended September 30, 2019, respectively, and are classified within “Selling, general and administrative expense” in the unaudited Condensed Consolidated Statements of Operations.

Raw Material Prices

Raw materials comprise approximately 75% of our cost of sales (excluding depreciation expense). The three largest raw materials used in our production processes are phenol, methanol and urea. These materials represent about half of our total raw material costs. Fluctuations in energy costs, such as volatility in the price of crude oil and related petrochemical products, as well as the cost of natural gas have historically caused volatility in our raw material and utility costs. In the first nine months of 2020 compared to the first nine months of 2019, the average price of phenol, urea and methanol decreased by approximately 10%, 9% and 21%, respectively. The impact of passing through raw material price changes to customers can result in significant variances in sales comparisons from year to year.

We expect long-term raw material cost volatility to continue because of price movements of key feedstocks. To help mitigate raw material volatility, we have purchase and sale contracts and commercial arrangements with many of our vendors and customers that contain periodic price adjustment mechanisms. Due to differences in timing of the pricing trigger points between our sales and purchase contracts, there is often a “lead-lag” impact. In many cases this “lead-lag” impact can negatively impact our margins in the short term in periods of rising raw material prices and positively impact them in the short term in periods of falling raw material prices.

Other Comprehensive Loss

Our other comprehensive loss is primarily impacted by foreign currency translation. The impact of foreign currency translation is driven by the translation of assets and liabilities of our foreign subsidiaries which are denominated in functional currencies other than the U.S. dollar. Our non-U.S. operations accounted for approximately 55% of our sales in the first nine months of 2020. The primary assets and liabilities driving the adjustments are cash and cash equivalents; accounts receivable; inventory; property, plant and equipment; accounts payable; pension and other postretirement benefit obligations and certain intercompany loans payable and receivable. The primary currencies in which these assets and liabilities are denominated are the euro, Brazilian real, Chinese yuan, Canadian dollar and Australian dollar.

In 2019, we entered into an interest rate swap agreement to hedge interest rate variability caused by quarterly changes in cash flow due to associated changes in LIBOR under our Senior Secured Term Loan. This swap is designated as a cash flow hedge and the change in fair value was recorded in “Accumulated other comprehensive loss”.

The impact of defined benefit pension and postretirement benefit adjustments is primarily driven by unrecognized prior service cost related to our defined benefit and other non-pension postretirement benefit plans (“OPEB”), as well as the subsequent amortization of these amounts from accumulated other comprehensive income in periods following the initial recording of such amounts. Upon the application of fresh start accounting, on the Effective Date, all prior unrecognized service cost within accumulated other comprehensive income related to our defined benefit pension and OPEB plans were reset in accordance with ASC 852.

Results of Operations

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor			Predecessor	Non-GAAP Combined	
	Three Months Ended September 30, 2020		July 2, 2019 through September 30, 2019	July 1, 2019	Three Months Ended September 30, 2019	
	$	% of Net Sales	$	$	$	% of Net Sales
Net sales	$ 634	100 %	$ 693	$ —	$ 693	100 %
Cost of sales (exclusive of depreciation and amortization shown below)	500	79 %	586	—	586	85 %
Selling, general and administrative expense	56	9 %	61	—	61	9 %
Depreciation and amortization	47	7 %	48	—	48	7 %
Business realignment costs	19	3 %	12	—	12	2 %
Other operating expense, net	4	1 %	4	—	4	1 %
Operating income (loss)	8	1 %	(18)	—	(18)	(3)%
Interest expense, net	25	4 %	28	—	28	4 %
Other non-operating (income) expense, net	(8)	(1)%	4	—	4	1 %
Reorganization items, net	—	— %	—	(3,126)	(3,126)	(451)%
Total non-operating expense (income)	17	3 %	32	(3,126)	(3,094)	(446)%
(Loss) income from continuing operations before income tax and earnings from unconsolidated entities	(9)	(1)%	(50)	3,126	3,076	444 %
Income tax expense (benefit)	17	3 %	(5)	191	186	27 %
(Loss) income from continuing operations before earnings from unconsolidated entities	(26)	(4)%	(45)	2,935	2,890	417 %
Earnings from unconsolidated entities, net of taxes	—	— %	1	—	1	— %
(Loss) income from continuing operations, net of taxes	(26)	(4)%	(44)	2,935	2,891	417 %
(Loss) income from discontinued operations, net of taxes	(76)	(12)%	1	119	120	17 %
Net (loss) income	(102)	(16)%	(43)	3,054	3,011	434 %
Other comprehensive income (loss)	$ 6		$ (16)	$ —	$ (16)	

Three Months Ended September 30, 2020 vs. Three Months Ended September 30, 2019

Net Sales

In the third quarter of 2020, net sales decreased by $59, or 9%, compared to the third quarter of 2019. Volumes positively impacted net sales by $13, due to volume increases in our specialty epoxy and base epoxy resins businesses as the market recovers, offset by decreases in our North American resins business due to overall weakness in the market, primarily in the construction industry. Pricing negatively impacted sales by $68 due to raw material decreases contractually passed through to customers across many of our businesses, as well as unfavorable product mix and continued competitive market conditions in our base epoxy resins business. Foreign currency translation negatively impacted net sales by $4 due to weakening of various foreign currencies against the U.S. dollar in the third quarter of 2020 compared to the third quarter of 2019.

Operating Income

In the third quarter of 2020, operating income (loss) increased by $26 from operating loss of $18 in the third quarter of 2019 to operating income of $8 in the third quarter of 2020. This was primarily driven by an increase in gross margin due to the continued recovery of many of our businesses during the year, partially offset by an increase in business realignment costs of $7. The increase in business realignment costs is driven by higher severance expenses related to current cost reduction actions.

Non-Operating Expense

In the third quarter of 2020, total non-operating expense decreased by $15 compared to the third quarter of 2019 (excluding the $3,126 of Reorganzation items, net gain as a result of the restructuring of our debt through our Chapter 11 proceedings). This was due to a decrease in interest expense of $3 due to lower interest rates on our variable rate debt and an increase of $12 in other non-operating income driven by higher realized and unrealized foreign currency gains.

Income Tax Expense

The income tax expense (benefit) for the Successor three months ended September 30, 2020, July 2, 2019 through September 30, 2019 and the Predecessor period July 1, 2019 was $17, $(5) and $191 respectively. The income tax expense (benefit) relates primarily to losses and income from certain foreign operations as well as the impacts of reorganization adjustments and fresh start accounting. In 2020 and 2019, losses in the United States and certain foreign jurisdictions had no impact on income tax expense as no tax benefit was recognized due to the maintenance of a full valuation allowance.

The effective tax rate for the three months ended September 30, 2020, July 2, 2019 through September 30, 2019 and the Predecessor period July 1, 2019 was (189)%, 10% and 6%, respectively. The change in the effective tax rate was primarily attributable to the amount and distribution of income and losses among the various jurisdictions in which we operate. The effective tax rates were also impacted by operating gains and losses generated in jurisdictions where no tax expense or benefit was recognized due to the maintenance of a full valuation allowance.

Other Comprehensive Income

For the third quarter of 2020, foreign currency translation positively impacted other comprehensive income by $7, due primarily to the strengthening of the euro against the U.S. dollar in the third quarter of 2020, partially offset by an unrealized loss of $1 on an interest rate swap designated as a cash flow hedge recorded to other comprehensive income.

For the third quarter of 2019, foreign currency translation negatively impacted other comprehensive loss by $16, due to an overall weakening of various foreign currencies against the U.S. dollar in the third quarter of 2019.

	Successor			Predecessor	Non-GAAP Combined	
	Nine Months Ended September 30, 2020		July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019	Nine Months Ended September 30, 2019	
	$	% of Net Sales	$	$	$	% of Net Sales
Net sales	$ 1,855	100 %	$ 693	$ 1,481	$ 2,174	100 %
Cost of sales (exclusive of depreciation and amortization shown below)	1,514	82 %	586	1,211	1,797	83 %
Selling, general and administrative expense	164	9 %	61	128	189	9 %
Depreciation and amortization	143	8 %	48	43	91	4 %
Asset impairments	16	1 %	—	—	—	— %
Business realignment costs	57	3 %	12	14	26	1 %
Other operating expense, net	15	1 %	4	17	21	1 %
Operating (loss) income	(54)	(3)%	(18)	68	50	2 %
Interest expense, net	76	4 %	28	89	117	5 %
Other non-operating (income) expense, net	(12)	(1)%	4	(11)	(7)	— %
Reorganization items, net	—	— %	—	(2,970)	(2,970)	(137)%
Total non-operating expense (income)	64	3 %	32	(2,892)	(2,860)	(132)%
(Loss) income from continuing operations before income tax and earnings from unconsolidated entities	(118)	(6)%	(50)	2,960	2,910	134 %
Income tax (benefit) expense	8	— %	(5)	201	196	9 %
(Loss) income from continuing operations before earnings from unconsolidated entities	(126)	(7)%	(45)	2,759	2,714	125 %
Earnings from unconsolidated entities, net of taxes	2	— %	1	1	2	— %
(Loss) income from continuing operations, net of taxes	(124)	(7)%	(44)	2,760	2,716	125 %
(Loss) income from discontinued operations, net of taxes	(79)	(4)%	1	135	136	6 %
Net (loss) income	(203)	(11)%	(43)	2,895	2,852	131 %
Net income attributable to noncontrolling interest	—	— %	—	(1)	(1)	— %
Net (loss) income attributable to Hexion Inc.	$ (203)	(11)%	$ (43)	$ 2,894	$ 2,851	131 %
Other comprehensive loss	$ (48)		$ (16)	$ (8)	$ (24)	

Nine Months Ended September 30, 2020 vs. Nine Months Ended September 30, 2019

Net Sales

In the first nine months of 2020, net sales decreased by $319, or 15%, compared to the first nine months of 2019. Volume decreases in the second quarter of 2020 driven by COVID-19's global economic impact across various industries and markets was the main driver of the decrease in net sales. Volumes negatively impacted net sales by $133 which was primarily related to volume decreases in our North American resins and formaldehyde businesses due to weaker demand and in our base epoxy businesses due to overall weakness in the market, primarily in the automotive and construction industries. Pricing negatively impacted sales by $151 due to raw material price decreases contractually passed through to customers across many of our businesses, as well as unfavorable product mix and continued competitive market conditions in our base epoxy resins business. Foreign currency translation negatively impacted net sales by $35 due to the weakening of various foreign currencies against the U.S. dollar in the first nine months of 2020 compared to the first months of 2019.

Operating (Loss) Income

In the first nine months of 2020, operating (loss) income decreased by $104 from operating income of $50 in the first nine months of 2019 to an operating loss of $54 in the first nine months of 2020. This decrease was driven by an increase of $52 in depreciation and amortization expense related to the step up of our fixed and intangible assets as a result of the application of fresh-start accounting, a $31 increase in business realignment costs driven by higher severance expenses related to current cost reduction actions, an increase in asset impairments of $16 due to an impairment charge in our oilfield and phenolic specialty resins businesses in the first quarter of 2020 and a decrease in gross profit due primarily to the impacts of COVID-19 on volumes in our businesses. These reductions to operating income were partially offset by a reduction in selling, general and administrative expense driven by $27 of costs related to our Chapter 11 proceedings incurred in the first nine months 2019 both prior to filing for bankruptcy and post-emergence.

Non-Operating Expense

In the first nine months of 2020, total non-operating expense increased by $2,924 from a non-operating income of $2,860 in the first nine months of 2019 to a non-operating loss of $64 due primarily to $2,970 of reorganization gains related to our Chapter 11 proceedings in the first nine months of 2019. This increase in non-operating expense was partially offset by an increase of $5 in other non-operating income driven by higher realized and unrealized foreign currency gains and a decrease in interest expense of $41 as a result of the restructuring of our debt through our Chapter 11 proceedings.

Income Tax Expense

The income tax expense (benefit) for the Successor nine months ended September 30, 2020, July 2, 2019 through September 30, 2019, and for the Predecessor period January 1, 2019 through July 1, 2019 was $8, $(5), and $201, respectively. The income tax expense (benefit) is comprised of tax expense on income and tax benefit on losses from certain foreign operations. In 2020 and 2019, losses in the United States and certain foreign jurisdictions had no impact on income tax expense as no tax benefit was recognized due to the maintenance of a full valuation allowance.

The effective tax rate for the Successor nine months ended September 30, 2020, July 2, 2019 through September 30, 2019, and for the Predecessor period January 1, 2019 through July 1, 2019 was (7)%, 10%, and 7%, respectively. The change in the effective tax rate was primarily attributable to the amount and distribution of income and losses among the various jurisdictions in which we operate. The effective tax rates were also impacted by operating gains and losses generated in jurisdictions where no tax expense or benefit was recognized due to the maintenance of a full valuation allowance.

Other Comprehensive Loss

For the first nine months of 2020, foreign currency translation negatively impacted other comprehensive loss by $29, due to an overall weakening of various foreign currencies against the U.S. dollar in the first nine months of 2020 and an unrealized loss of $19 on an interest rate swap designated as a cash flow hedge recorded to other comprehensive loss.

For the first nine months of 2019, foreign currency translation negatively impacted other comprehensive loss by $24, due to an overall weakening of various foreign currencies against the U.S. dollar in the first nine months of 2019.

Results of Operations by Segment

Following are net sales and Segment EBITDA (earnings before interest, income taxes, depreciation and amortization) by reportable segment. Segment EBITDA is defined as EBITDA adjusted for certain non-cash items and other income and expenses. Segment EBITDA is the primary performance measure used by our senior management, the chief operating decision-maker and the Board of Directors to evaluate operating results and allocate capital resources among segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation goals. Segment EBITDA should not be considered a substitute for net loss or other results reported in accordance with U.S. GAAP. Segment EBITDA may not be comparable to similarly titled measures reported by other companies.

	Successor		Predecessor	Non-GAAP Combined
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Three Months Ended September 30, 2019
Net Sales [1]**:**				
Adhesives	$ 293	$ 361	$ —	$ 361
Coatings and Composites	341	$ 332	—	332
Total	$ 634	$ 693	$ —	$ 693
Segment EBITDA:				
Adhesives	$ 58	$ 59	$ 18	$ 77
Coatings and Composites	50	44	—	44
Corporate and Other	(17)	(17)	—	(17)
Total	$ 91	$ 86	$ 18	$ 104

	Successor	Successor	Predecessor	Non-GAAP Combined
	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019	Nine Months Ended September 30, 2019
Net Sales [1]**:**				
Adhesives	$ 874	$ 361	$ 761	$ 1,122
Coatings and Composites	981	332	720	1,052
Total	$ 1,855	$ 693	$ 1,481	$ 2,174
Segment EBITDA:				
Adhesives	$ 156	$ 59	$ 135	$ 194
Coatings and Composites	115	44	96	140
Corporate and Other	(51)	(17)	(30)	(47)
Total	$ 220	$ 86	$ 201	$ 287

(1) Intersegment sales are not significant and, as such, are eliminated within the selling segment.

Three Months Ended September 30, 2020 vs. Three Months Ended September 30, 2019 Segment Results

Following is an analysis of the percentage change in net sales by segment from the three months ended September 30, 2019 to the three months ended September 30, 2020:

	Volume	Price/Mix	Currency Translation	Total
Adhesives	(8)%	(8)%	(3)%	(19)%
Coatings and Composites	13 %	(12)%	2 %	3 %

Adhesives

Net sales in the third quarter of 2020 decreased by $68, or 19%, when compared to the third quarter of 2019. Volumes negatively impacted net sales by $29, primarily driven by COVID-19’s global economic impact on our North American and Latin American forest products resins businesses and our North American formaldehyde business. Pricing negatively impacted net sales by $28, which was primarily due to raw material price decreases contractually passed through to customers across many of our businesses. Foreign currency translation negatively impacted net sales by $11 mainly due to the strengthening of the U.S dollar against various foreign currencies in the third quarter of 2020 compared to the third quarter of 2019.

Segment EBITDA in the third quarter of 2020 decreased by $19, to $58, compared to the third quarter of 2019. This decrease was was primarily driven by $18 of previously recorded deferred contract revenue that was accelerated as a result of the application of fresh start accounting in 2019, as well as the COVID-19 impacts on volumes in our forest products resins and formaldehyde businesses as discussed above.

Coatings and Composites

Net sales in the third quarter of 2020 increased by $9, or 3%, when compared to the third quarter of 2019. Volume increases in the third quarter of 2020 were driven by strong recovery in many of our businesses from COVID-19’s initial impact on the global economy. Volumes positively impacted net sales by $42, which was primarily related to volume increases in our specialty epoxy business driven by continued strong global demand in wind energy. Pricing negatively impacted net sales by $40, due to raw material decreases contractually passed through to customers across many of our businesses, as well as unfavorable product mix and continued competitive market conditions in our base epoxy resins business. Lastly, foreign currency translation positively impacted net sales by $7, due primarily to the weakening of the U.S. dollar against the euro and Chinese yuan third quarter of 2020 compared to the third quarter of 2019.

Segment EBITDA in the third quarter of 2020 increased by $6 to $50, compared to the third quarter of 2019. The increase was primarily due to favorability in our specialty epoxy business driven by strong global demand in wind energy and strong market conditions in our versatic acids business related to architectural coatings and recovering automotive demand.

Corporate and Other

Corporate and Other is primarily corporate, general and administrative expenses that are not allocated to the other segments, such as shared service and administrative functions and unallocated foreign exchange gains and losses. Corporate and Other charges in the third quarter of 2020 remained flat compared to the third quarter of 2019 as lower compensation costs, travel expenses and savings associated with our ongoing cost reduction efforts were partially offset by the impact of termination of our Shared Services Agreement with MPM.

Nine Months Ended September 30, 2020 vs. Nine Months Ended September 30, 2019 Segment Results

Following is an analysis of the percentage change in net sales by segment from the nine months ended September 30, 2019 to the nine months ended September 30, 2020:

	Volume	Price/Mix	Currency Translation	Total
Adhesives	(13)%	(6)%	(3)%	(22)%
Coatings and Composites	1 %	(8)%	— %	(7)%

Adhesives

Net sales in the first nine months of 2020 decreased by $248, or 22%, when compared to the first nine months of 2019. Volume decreases in the first nine months of 2020 driven by COVID-19’s global economic impact across various industries and markets was the main driver for the decrease in net sales. Volumes negatively impacted net sales by $146, primarily related to volume reductions in our North American resins, Latin American resins and North American Formaldehyde businesses driven by overall weakness in the market, primarily in the construction industry. Pricing negatively impacted net sales by $70, primarily due to raw material price decreases contractually passed through to customers across many of our businesses. Lastly, foreign currency translation negatively impacted net sales by $32, due largely to the weakening of various foreign currencies against the U.S. dollar in the first nine months of 2020 compared to the first nine months of 2019.

Segment EBITDA in the first nine months of 2020 decreased by $38 to $156, when compared to the first nine months of 2019. This decrease was primarily driven by COVID-19 impacts on volumes in our forest products resins and formaldehyde businesses, as discussed above, as well as $18 of previously recorded deferred contract revenue that was accelerated as a result of the application of fresh start accounting in 2019.

Coatings and Composites

Net sales in the first nine months of 2020 decreased by $71, or 7%, when compared to the first nine months of 2019. Pricing negatively impacted net sales by $81 due to raw material decreases contractually passed through to customers across many of our businesses, as well as unfavorable product mix and continued competitive market conditions in our base epoxy resins and specialty epoxy resins businesses. Volumes positively impacted net sales by $13, which was primarily due to volume increases in our specialty epoxy business driven by continued strong global demand in wind energy. These increases were partially offset by decreases in our base epoxy business driven by the impact of COVID-19 on overall market demand, primarily in the automotive and construction industries. Foreign currency translation negatively impacted net sales by $3, due primarily to the weakening of various foreign currencies against the U.S. dollar in the first half of 2020 compared to the first half of 2019.

Segment EBITDA in the first nine months of 2020 decreased by $25 to $115 compared to the first nine months of 2019. The decrease was primarily due to COVID-19 impacts and continued competitive market conditions in our base epoxy resins business, as well as a temporary manufacturing outage at our Pernis site, which negatively impacted our current year Segment EBITDA by approximately $8. These Segment EBITDA decreases were partially offset by favorability in our specialty epoxy business driven by strong global demand in wind energy and strong market conditions in our versatic acids business.

Corporate and Other

Corporate and Other is primarily corporate, general and administrative expenses that are not allocated to the other segments, such as shared service and administrative functions and unallocated foreign exchange gains and losses. Corporate and Other charges in the first nine months of 2020 increased by $4 compared to the first nine months of 2019 due primarily to the impact of termination of our Shared Services Agreement with MPM, partially offset by savings associated with our ongoing cost reduction efforts and lower compensation costs in 2020.

Reconciliation of Net Loss to Segment EBITDA:

	Successor		Predecessor	Non-GAAP Combined
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Three Months Ended September 30, 2019
Reconciliation:				
Net (loss) income attributable to Hexion Inc.	$ (102)	$ (43)	$ 3,054	$ 3,011
Less: Net (loss) income from discontinued operations	(76)	1	119	120
Net (loss) income from continuing operations	$ (26)	$ (44)	$ 2,935	$ 2,891
Income tax expense (benefit)	17	(5)	191	186
Interest expense, net	25	28	—	28
Depreciation and amortization	47	48	—	48
EBITDA	63	27	3,126	3,153
Adjustments to arrive at Segment EBITDA:				
Business realignment costs [1]	$ 19	$ 12	$ —	$ 12
Transaction costs [2]	1	5	—	5
Realized and unrealized foreign currency (gains) losses	(3)	9	—	9
Reorganization items, net [3]	—	—	(3,099)	(3,099)
Non-cash impact of inventory step-up [4]	—	27	(27)	—
Other non-cash items [5]	6	1	—	1
Other [6]	5	5	18	23
Total adjustments	28	59	(3,108)	(3,049)
Segment EBITDA	$ 91	$ 86	$ 18	$ 104
Segment EBITDA:				
Adhesives	$ 58	$ 59	$ 18	$ 77
Coatings and Composites	50	44	—	44
Corporate and Other	(17)	(17)	—	(17)
Total	$ 91	$ 86	$ 18	$ 104

(1) Business realignment costs for the Successor and Predecessor periods below included:

	Successor		Predecessor	Non-GAAP Combined
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Three Months Ended September 30, 2019
Severance costs	$ 4	$ 4	$ —	$ 4
In-process facility rationalizations	5	3	—	3
Business services implementation	6	—	—	—
Legacy environmental reserves	4	4	—	4
Other	—	1	—	1

(2) For the Successor three months ended September 30, 2020, transaction costs included certain professional fees related to strategic projects.

(3) Represents incremental costs incurred directly as a result of the Company’s Chapter 11 proceedings after the date of filing, gains on the settlement of liabilities under the Plan and the net impact of fresh start accounting adjustments. Excludes the ”Non-cash impact of inventory step-up” discussed below.

(4) Represents $27 of non-cash expense related to the step up of finished goods inventory on July 1 as part of fresh start accounting that was expensed in the successor period upon the sale of the inventory.

(5) Other non-cash items for the Successor and Predecessor periods presented below included:

	Successor		Predecessor	Non-GAAP Combined
	Three Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	July 1, 2019	Three Months Ended September 30, 2019
Fixed asset write-offs	$ —	$ —	$ —	$ —
Stock-based compensation costs	4	5	—	5
Long-term retention programs	1	—	—	—
One-time capitalized variance impact of inventory fresh start step-up	—	(4)	—	(4)
Other	1	—	—	—

(6) Other for Successor and Predecessor periods presented below included:

	Successor		Predecessor	Non-GAAP Combined
	Three Months Ended September 30, 2020	**July 2, 2019 through September 30, 2019**	**July 1, 2019**	**Three Months Ended September 30, 2019**
Legacy expenses	$ 2	$ 4	$ —	$ 4
IT outage (recoveries) costs, net	—	(1)	—	(1)
Management fees and other	3	2	—	2
Accelerated deferred revenue	—	—	18	18

	Successor		Predecessor	Non-GAAP Combined
	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019	Nine Months Ended September 30, 2019
Reconciliation:				
Net (loss) income attributable to Hexion Inc.	$ (203)	$ (43)	$ 2,894	$ 2,851
Add: Net income attributable to noncontrolling interest	—	—	1	1
Less: Net (loss) income from discontinued operations	(79)	1	135	136
Net (loss) income from continuing operations	$ (124)	$ (44)	$ 2,760	$ 2,716
Income tax expense (benefit)	8	(5)	201	196
Interest expense, net	76	28	89	117
Depreciation and amortization (1)	143	48	43	91
EBITDA	103	27	3,093	3,120
Adjustments to arrive at Segment EBITDA:				
Asset impairments	$ 16	$ —	$ —	$ —
Business realignment costs (2)	57	12	14	26
Transaction costs (3)	4	5	26	31
Realized and unrealized foreign currency losses (gains)	2	9	(7)	2
Reorganization items, net (4)	—	—	(2,943)	(2,943)
Non-cash impact of inventory step-up (5)	—	27	(27)	—
Other non-cash items (6)	29	1	9	10
Other (7)	9	5	36	41
Total adjustments	117	59	(2,892)	(2,833)
Segment EBITDA	$ 220	$ 86	$ 201	$ 287
Segment EBITDA:				
Adhesives	$ 156	$ 59	$ 135	$ 194
Coatings and Composites	115	44	96	140
Corporate and Other	(51)	(17)	(30)	(47)
Total	$ 220	$ 86	$ 201	$ 287

(1) For the nine months ended September 30, 2020, accelerated depreciation of $2 has been included in “Depreciation and amortization.”

(2) Business realignment costs for the Successor and Predecessor periods below included:

	Successor		Predecessor	Non-GAAP Combined
	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019	Nine Months Ended September 30, 2019
Severance costs	$ 15	$ 4	$ 8	$ 12
In-process facility rationalizations	13	3	3	6
Business services implementation	17	—	—	—
Legacy environmental reserves	8	4	1	5
Other	4	1	2	3

(3) For the Successor nine months ended September 30, 2020, transaction costs included certain professional fees related to strategic projects. For the Successor period from July 2, 2019 through September 30, 2019 and the Predecessor period from January 1, 2019 through July 1, 2019, transaction costs primarily included $4 and $23, respectively, of certain professional fees and other expenses related to the Company’s Chapter 11 proceedings.

(4) Represents incremental costs incurred directly as a result of the Company’s Chapter 11 proceedings after the date of filing, gains on the settlement of liabilities under the Plan and the net impact of fresh start accounting adjustments. Excludes the ”Non-cash impact of inventory step-up” discussed below.

(5) Represents $27 of non-cash expense related to the step up of finished goods inventory on July 1 as part of fresh start accounting that was expensed in the successor period upon the sale of the inventory.

(6) Other non-cash items for the Successor and Predecessor periods presented below included:

	Successor		Predecessor	Non-GAAP Combined
	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019	Nine Months Ended September 30, 2019
Fixed asset write-offs	$ 6	$ —	$ 3	$ 3
Stock-based compensation costs	13	5	—	5
Long-term retention programs	7	—	5	5
One-time capitalized variance impact of inventory fresh start step-up	—	(4)	—	(4)
Other	3	—	1	1

(7) Other for Successor and Predecessor periods presented below included:

	Successor		Predecessor	Non-GAAP Combined
	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019	Nine Months Ended September 30, 2019
Legacy expenses	$ 7	$ 4	$ 3	$ 7
IT outage costs (recoveries), net	(4)	(1)	9	8
Management fees and other	6	2	6	8
Accelerated deferred revenue	—	—	18	18

Liquidity and Capital Resources

2020 Outlook

Following our emergence from our Chapter 11 proceedings, we believe we are favorably positioned to fund our ongoing liquidity requirements for the foreseeable future through cash generated from operations, as well as available borrowings under our ABL Facility. The impact of the Plan on our capital structure resulted in a reduction of more than $200 in our annual debt service obligations and the additional liquidity from the Rights Offerings has provided operational and financial flexibility and allowed us to be well positioned to make strategic capital investments, leverage our leadership positions with both our customers and suppliers, optimize our portfolio and drive new growth programs.

As the impact of the COVID-19 pandemic on the global economy and our operations evolves, we will continue to assess our liquidity needs. We have taken a number of actions to mitigate the unfavorable liquidity impacts of the pandemic, including:

- Reducing our overall anticipated 2020 capital expenditures (including discontinued operations) to between $110 and $120;
- Continuing to focus on optimizing working capital, while rebuilding inventory as demand recovers;
- Reducing selling, general and administrative expense wherever possible, including travel and other discretionary spending items, as well as moving to a managed services model;
- Deferring $5 of certain tax payments to future years in conjunction with the CARES Act and tax relief measures in other jurisdictions where we operate.

Our short-term cash needs are expected to include funding operations as currently planned and we believe that we will be able to meet our liquidity needs over the next 12 months based on our current projections of cash flow from operations and borrowing availability under financing arrangements.

At September 30, 2020, we had $1,833 of outstanding debt and $452 in liquidity consisting of the following:

- $155 of unrestricted cash and cash equivalents (of which $90 is maintained in foreign jurisdictions);
- $230 of borrowings available under our ABL Facility ($350 borrowing base less $67 of outstanding borrowings and $53 of outstanding letters of credit); and
- $67 of time drafts and borrowings available under credit facilities at certain international subsidiaries

During the third quarter 2020, we entered into a Purchase Agreement to sell our Phenolic Specialty Resins, Hexamine and European-based Forest Products Resins businesses. We expect to complete the transaction in the first quarter of 2021. We plan to use the proceeds from the transaction to reinvest in our businesses and to help reduce the absolute amount of our debt. We continue to explore options to optimize our portfolio.

Our net working capital (defined as accounts receivable and inventories less accounts payable) from continuing operations at September 30, 2020 and December 31, 2019 was $359 and $320, respectively. A summary of the components of our net working capital as of September 30, 2020 and December 31, 2019 is as follows:

	September 30, 2020	% of LTM Net Sales	December 31, 2019	% of LTM Net Sales
Accounts receivable	$ 363	15 %	$ 316	11 %
Inventories	261	10 %	293	10 %
Accounts payable	(265)	(11)%	(289)	(10)%
Net working capital [(1)]	$ 359	14 %	$ 320	11 %

(1) Management believes that this non-GAAP measure is useful supplemental information. This non-GAAP measure should be considered by the reader in addition to but not instead of, the financial statements prepared in accordance with GAAP.

The increase in net working capital of $39 from December 31, 2019 was driven by an increase in accounts receivable of $47 and a decrease in accounts payable of $24, partially offset by a decrease in inventory of $32. The increase in accounts receivable was driven by higher volumes in the third quarter of 2020 as compared to the fourth quarter of 2019, the decrease in accounts payable was largely related to raw material price decreases in the first nine months of 2020 and timing of vendor payments and the decrease in inventories was driven by raw material price decreases in the first nine months of 2020.

Sources and Uses of Cash

Following are highlights from our unaudited Condensed Consolidated Statements of Cash Flows for continuing operations:

	Successor		Predecessor	Non-GAAP Combined
	Nine Months Ended September 30, 2020	July 2, 2019 through September 30, 2019	January 1, 2019 through July 1, 2019	Nine Months Ended September 30, 2019
(Uses) sources of cash:				
Operating activities	$ (11)	$ 7	$ (163)	$ (156)
Investing activities	(76)	(18)	(40)	(58)
Financing activities	7	(17)	212	195
Effect of exchange rates on cash flow	(2)	(3)	—	(3)
Net change in cash and cash equivalents	$ (82)	$ (31)	$ 9	$ (22)

Operating Activities

In the nine months ended September 30, 2020, operations used $11 of cash. Net loss from continuing operations of $124 included $182 of net non-cash expense items, consisting of depreciation and amortization of $143, non-cash asset impairments of $16, non-cash stock based compensation expense of $13, a deferred tax benefit of $5 and loss on sale of assets of $7, partially offset by unrealized foreign currency losses of $1 and other non-cash adjustments of $1. Net working capital used $38, which was driven by an increase in accounts receivable and a decrease in accounts payable, partially offset by a decrease in inventory, due primarily to raw material price decreases. Changes in other assets and liabilities and income taxes payable used $31 due to the timing of when items were expensed versus paid, which primarily included operating lease expense, interest expense, employee retention programs, incentive compensation, pension plan contributions and taxes. In the nine months ended September 30, 2020, we contributed $23 to our defined benefit international pension plans in excess of our pension expense.

In the nine months ended September 30, 2019, operations used $156 of cash. Net income from continuing operations of $2,716 included $2,794 of net non-cash income items. consisting of $3,020 related to our reorganization, unrealized foreign currency gains of $1, and other non-cash adjustments of $3, partially offset by deferred tax expense of $132, depreciation and amortization of $91, non-cash stock based compensation expense of $4 and loss on the sale of assets of $3. Net working capital used $129, which was largely driven by increases in accounts receivable due primarily to seasonality of our businesses, and decreases in accounts payable related to timing of vendor payments, primarily as a result of our Chapter 11 proceedings. Changes in other assets and liabilities and income taxes payable provided $51 due to the timing of when items were expensed versus paid, which primarily included operating lease expense, interest expense, employee retention programs, incentive compensation, pension plan contributions and taxes.

Investing Activities

In the nine months ended September 30, 2020, investing activities used $76 of cash primarily related to capital expenditures of $78, partially offset by proceeds from sale of assets of $2.

In the nine months ended September 30, 2019, investing activities used $58 of cash primarily related to capital expenditures of $59, partially offset by proceeds from sale of assets of $1.

Financing Activities

In the nine months ended September 30, 2020, financing activities provided $7 of cash. Net short-term debt borrowings were $25 and net long-term debt borrowings were $42. Our long-term debt borrowings primarily consisted of $67 of ABL borrowings in the first quarter of 2020. The Company distributed a $10 affiliate loan to its Parent which was used for share repurchases, which was subsequently settled with a return of capital.

In the nine months ended September 30, 2019, financing activities provided $195 of cash. Net short-term debt borrowings were $10, net long-term debt borrowings were $43, proceeds received from the rights offering were $300 and payment of $138 of financing fees. Our long-term debt borrowings primarily consisted of the proceeds from our new Senior Secured Term loans and Senior Notes, offset by the debt repayments made as part of the Plan.

There are certain restrictions on the ability of certain of our subsidiaries to transfer funds to Hexion Inc. in the form of cash dividends, loans or otherwise, which primarily arise as a result of certain foreign government regulations or as a result of restrictions within certain subsidiaries' financing agreements limiting such transfers to the amounts of available earnings and profits or otherwise limit the amount of dividends that can be distributed. In either case, we have alternative methods to obtain cash from these subsidiaries in the form of intercompany loans and/or returns of capital in such instances where payment of dividends is limited to the extent of earnings and profits.

Covenant Compliance

New Credit Facilities and Senior Notes

The instruments that govern our indebtedness contain, among other provisions, restrictive covenants (and incurrence tests in certain cases) regarding indebtedness, dividends and distributions, mergers and acquisitions, asset sales, affiliate transactions, capital expenditures and, in the case of our ABL Facility, the maintenance of a financial ratio (depending on certain conditions). Payment of borrowings under the ABL Facility and our notes may be accelerated if there is an event of default as determined under the governing debt instrument. Events of default under the credit agreement governing our ABL Facility includes the failure to pay principal and interest when due, a material breach of representations or warranties, events of bankruptcy, a change of control, and most covenant defaults. Events of default under the indentures governing our notes include the failure to pay principal and interest, a failure to comply with covenants, subject to a 30-day grace period in certain instances, and certain events of bankruptcy.

The indenture that governs our 7.875% Senior Notes due 2027 (the "Indenture") contains a Pro Forma EBITDA to Fixed Charges ratio incurrence test which may restrict our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet this ratio (measured on a last twelve months, or LTM, basis) of at least 2.0:1. The Pro Forma EBITDA to Fixed Charges Ratio under the Indenture is generally defined as the ratio of (a) Pro Forma EBITDA to (b) net interest expense excluding the amortization or write-off of deferred financing costs, each measured on an LTM basis. See below for our Pro Forma EBITDA to Fixed Charges Ratio calculation.

Our ABL Facility, which is subject to a borrowing base, does not have any financial maintenance covenant other than a minimum fixed charge coverage ratio of 1.0 to 1.0 that would only apply if our availability under the ABL Facility at any time is less than the greater of (a) $30 and (b) 10.0% of the lesser of the borrowing base and the total ABL Facility commitments at such time. The fixed charge coverage ratio under the credit agreement governing the ABL Facility is generally defined as the ratio of (a) Pro Forma EBITDA minus non-financed capital expenditures and cash taxes to (b) debt service plus cash interest expense plus certain restricted payments, each measured for the four most recent quarters for which financial statements have been delivered.

Reconciliation of Last Twelve Months Net Income to Pro Forma EBITDA

Pro Forma EBITDA is defined as EBITDA adjusted for certain non-cash and certain non-recurring items and other adjustments calculated on a pro-forma basis, including the expected future cost savings from business optimization programs or other programs and the expected future impact of acquisitions, in each case as determined under the governing debt instrument. We believe that including the supplemental adjustments that are made to calculate Pro Forma EBITDA provides additional information to investors about our ability to comply with our financial covenants and to obtain additional debt in the future. Pro Forma EBITDA and Fixed Charges are not defined terms under U.S. GAAP. Pro Forma EBITDA is not a measure of financial condition, liquidity or profitability, and should not be considered as an alternative to net income (loss) determined in accordance with U.S. GAAP or operating cash flows determined in accordance with U.S. GAAP. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not take into account certain items such as interest and principal payments on our indebtedness, depreciation and amortization expense (because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue), working capital needs, tax payments (because the payment of taxes is part of our operations, it is a necessary element of our costs and ability to operate), non-recurring expenses and capital expenditures. Fixed Charges under the Indenture should not be considered an alternative to interest expense.

The following table reconciles net loss to EBITDA and Pro Forma EBITDA from continuing operations for the twelve month period, and calculates the ratio of Pro Forma EBITDA to Fixed Charges as calculated under our Indenture for the period presented:

	September 30, 2020 LTM Period
Net loss	$ (248)
Net loss from discontinued operations	(72)
Net loss from continuing operations	(176)
Income tax expense	8
Interest expense, net	103
Depreciation and amortization	187
EBITDA	122
Adjustments to arrive at Pro Forma EBITDA:	
Asset impairments	16
Business realignment costs [(1)]	68
Realized and unrealized foreign currency gains	(3)
Unrealized losses on pension and postretirement benefits [(2)]	5
Transaction costs [(3)]	10
Other non-cash items [(4)]	38
Other [(5)]	21
Cost reduction programs savings [(6)]	8
Pro Forma EBITDA	$ 285
Pro forma fixed charges [(7)]	$ 100
Ratio of Pro Forma EBITDA to Fixed Charges [(8)]	2.85

(1) Primarily represents costs related to certain in-process cost reduction activities, including severance costs of $19, $19 related to certain in-process facility rationalizations, $11 for future environmental clean-up of closed facilities and one-time implementation and transition costs associated with the creation of a business services group within the Company of $18.

(2) Represents non-cash losses resulting from pension and postretirement benefit plan liability remeasurements.

(3) Represents certain professional fees related to strategic projects, including $3 of certain professional fees and other expenses related to our Chapter 11 proceedings incurred post-emergence.

(4) Primarily includes expenses for stock-based compensation costs of $16, non-cash fixed asset write-offs of $12 and long-term retention programs of $6.

(5) Primarily represents $8 of expenses related to legacy liabilities, $6 of business optimization expense, $10 related to management fees and other expenses, offset by $3 of IT outage recoveries.

(6) Represents pro forma impact of in-process cost reduction programs savings. Cost reduction program savings represent the unrealized headcount reduction savings and plant rationalization savings related to cost reduction programs and other unrealized savings associated with the Company's business realignments activities, and represent our estimate of the unrealized savings from such initiatives that would have been realized had the related actions been completed at the beginning of the period presented. The savings are calculated based on actual costs of exiting headcount and elimination or reduction of site costs. We expect the savings to be realized within the next 18 months.

(7) Reflects pro forma interest expense based on interest rates at September 30, 2020.

(8) The Company's ability to incur additional indebtedness, among other actions, is restricted under the Secured Indentures, unless the Company has a Pro Forma EBITDA to Fixed Charges ratio of at least 2.0 to 1.0.

Recently Issued Accounting Standards

See Note 2 in Item 1 of Part I of this Quarterly Report on Form 10-Q for a detailed description of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material developments during the first nine months of 2020 on the matters we have previously disclosed about quantitative and qualitative market risk in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2020. Based upon that evaluation, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective at September 30, 2020.

Changes in Internal Control Over Financial Reporting

In the third quarter 2020, we transitioned certain of our information technology, accounting and finance functions to our new third-party business services partner. We expect to be fully transitioned in early 2021. No other changes occurred in the Company’s internal control over financial reporting during the Company’s most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There have been no other material developments during the third quarter of 2020 in any of the ongoing legal proceedings that are included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 1A. Risk Factors

Our operations and results may be negatively impacted by the COVID-19 outbreak.

Global or national health concerns, including the outbreak of pandemic or contagious disease, such as the recent COVID-19 pandemic, may adversely affect us.

Since December 2019, the COVID-19 virus which was first reported in Wuhan, China, has spread further in China and other regions including Europe and the United States, where we have operations. In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. Around the world, local governments' responses to COVID-19 continue to evolve, which has led to stay-at-home orders, social distancing guidelines and other preventative measures that have disrupted various industries in the global economy and created significant volatility in the financial markets.

While the Company has continued to operate during the pandemic, it incurred adverse financial impacts to its sales and profitability results during the three and nine months ended September 30, 2020 from COVID-19, primarily related to reduced volumes associated with the pandemic. Future COVID developments could adversely result in business and manufacturing disruption, inventory shortages, delivery delays, our ability to obtain financing on favorable terms, and reduced sales due to an economic downturn that could affect demand for our products. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others. A prolonged economic downturn from COVID-19 could also result in impairments to long-lived assets, including goodwill and intangibles.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

This item is not applicable to the registrant.

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Rule 13a-14 Certifications:
	(a) Certificate of the Chief Executive Officer
	(b) Certificate of the Chief Financial Officer
32.1	Section 1350 Certifications
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document
101.LAB*	XBRL Label Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document

* Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). The financial information in the XBRL-related documents is “unaudited” or “unreviewed.”

† Represents a management contract or compensatory plan or arrangement

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		HEXION INC.
Date:	November 9, 2020	/s/ George F. Knight
		George F. Knight Executive Vice President, Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1(A)

Certification of Financial Statements and Internal Controls

I, Craig A. Rogerson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hexion Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

/s/ Craig A. Rogerson
Craig A. Rogerson
Chief Executive Officer

Exhibit 31.1(B)

Certification of Financial Statements and Internal Controls

I, George F. Knight, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hexion Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

/s/ George F. Knight
George F. Knight
Chief Financial Officer

Exhibit 32.1

Certification Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 Of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Hexion Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Craig A. Rogerson	/s/ George F. Knight
Craig A. Rogerson	George F. Knight
Chief Executive Officer	Chief Financial Officer
November 9, 2020	November 9, 2020

A signed original of this statement required by Section 906 has been provided to Hexion Inc. and will be retained by Hexion Inc. and furnished to the Securities and Exchange Commission or its staff upon request.