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# EDITED TRANSCRIPT

- Q1 2015 Hexion Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

**Bill Carter** *Hexion Inc - EVP, CFO*

## CONFERENCE CALL PARTICIPANTS

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

**Adam Goodwin** *Goldman Sachs - Analyst*

**Roger Spitz** *Bank of America - Analyst*

**Brian Lalli** *Barclays - Analyst*

**Bill Hoffmann** *RBC Capital Markets - Analyst*

**Lauren Gallagher** *Credit Suisse - Analyst*

**Maryana Kushnir** *Nomura Asset Management - Analyst*

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

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Q1 2015 Hexion Inc. earnings conference call. My name is Joyce and I will be your operator for today.

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today John Kompa, Investor Relations. Please proceed.

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### John Kompa - Hexion Inc - IR

Thank you, Joyce. Good morning and welcome to Hexion Inc. first quarter 2015 conference call. Leading today's call will be Craig Morrison, Chairman, President and CEO; Bill Carter, Executive Vice President and Chief Financial Officer; and George Knight, Senior Vice President, Finance and Treasurer.

As a reminder is called also be Webcast and the slides referenced in today's conference call are available through the hexion.com Web site under the investor relations section of Hexion. A replay of this call will be available for one week and replayed dial in information is contained in our latest earnings release.

Before we start, I'd like to review information about forward-looking statements and use of non-GAAP information as part of this call. As you know, some of our comments today may include statements about our expectations for the future. Those expectations are subject to known and unknown risk, uncertainties and other factors that may cause the company's actual results and performance to be materially different from any future results or performance suggested by these expectations.

The slide you now see gives you more information on the assumptions and factors we consider in making those forward-looking statements. We can't guarantee the accuracy of any forecasts or estimates and we undertake no obligation to update any forward-looking statements during the quarter except as otherwise required by law. For more information on our risk factors, please see our earnings press release in our SEC filings.



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

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

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

Thanks, John.

Turning to page 4 in our first quarter 2015 results, revenues decreased 17% to \$1.1 billion, reflecting the negative impact of the U.S. dollar strengthening and lower selling prices driven by the decline in oil prices. On a constant currency basis net sales would have decreased by 9% for the quarter. Our segment EBITDA totaled \$127 million, a 6% increase, or 13% on a constant currency basis.

Epoxy phenolic encoding resins results increased by 6% reflecting favorable demand for our specially epoxy products and base epoxy resins offsetting softer results in oilfield proppants and the impact of the strengthening U.S. dollar.

Our global forest products EBITDA was nearly flat, declining by \$1 million and reflected year-over-year gains in North American forest product resins offset by planned customer turnarounds impacting our formaldehyde business and the negative impact of FX which was \$5 million for the quarter. Turning to slide 5, we continue to execute our strategic growth plan highlighted by our three formaldehyde sites that are currently under construction.

We were also aggressively driving cost savings throughout the company by implementing our recently announced cost savings program. In the first quarter of 2015 we achieved \$4 million of actions that we expect to generate \$30 million of savings on a run rate basis. Finally we successfully completed a \$315 million first party senior secured notes offering in April. We have received commitments from lenders for an ABL facility amendment which boosted our pro forma liquidity to \$763 million.

Turning to slide 6 and our combined raw material index. You can see that our raw material input costs decreased by 18% in total, reflecting the down turn in key feed stock costs sequentially. Comparing first quarter 2015 to the prior year, phenol, methanol and urea all declined significantly.

As mentioned in our last earnings call, we've seen the impact of declining oilfield BU EBITDA offset by declining raw material prices and other business units. Turning to slide 7, we've highlighted our specialty epoxy business which serves as a key supplier to the wind energy market. Our composite solutions are used in wind turbines as we offer rotor blade infusion systems and bonding paste. Our growth has been particularly strong in China where new installations drive demand for our particular products.

China continues to account for much of the global growth and cumulative installations reached \$115,000 last year, an increase of nearly 26% over 2013. Our specialty epoxy business continues to perform well with this age in energy demand accounting for much of the gains. You can see that our volumes are steadily improving as the Chinese government continues to be supportive of wind energy installations.

As discussed on prior calls we've also recently expanded our global specialty epoxy network through our new site in Itatiba, Brazil, to serve the Latin-American wind energy market.

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

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Thank you, Craig.



Turning to our epoxy phenolic encoding resin segment, revenue totaled \$674 million, an 18% decrease as currency headwinds impacted sales by 8%, a negative price makes impact of 5% and lower volumes of 5% that included the force majeure impact in our Versatics business. Segment EBITDA increased by \$5 million compared to the prior year. We posted strong gains in our specialty epoxy business due to continued demand in the wind energy markets, as Craig mentioned, and continued recovering on our base epoxy resins which offset softer results in our oilfield proppants business.

Segment EBITDA margins improved year on year by 280 basis points. Regarding our Versatics supplier outage, we continue to expect that that situation will be resolved in the third quarter of 2015.

Turning to the next slide, in our forest products resin segment sales totaled \$405 million, a 15% decline with volume decreases of 2% price makes headwinds of 7% reflecting the pass-through of declining raw materials and negative currency translation of 6%. Segment EBITDA declined by \$1 million, or 2%, although EBITDA margin improved by 210 basis points. Slight volume gains, strong North American results, and ongoing cost discipline could not fully offset the negative currency impact and lower formaldehyde volumes due to customer turnarounds.

Finally, our global formaldehyde expansion projects remain on track for completion later this year and early 2016. All three projects benefit from a direct pipeline relationship for contracted volumes serving investment-grade customers. Regarding our balance sheet on the next slide, our cash plus borrowing availability with under our credit facilities was \$462 million as of March 31. We were pleased to complete our first priority senior secured notes offering in April 2015 and received commitments to amend our ABL facility which increased our pro forma liquidity to \$763 million.

In the first quarter of 2015, we also generated strong cash flow from operations for a net improvement year on year of \$137 million. For the first quarter, we had breakeven free cash flow with cash from operations offsetting net investments. Our capital expenditures totaled \$40 million in the first quarter and we continue to expect our 2015 capital expenditures to be lower than capital spending in 2014.

Our net working capital totaled \$556 million at the end of the first quarter, favorable networking capital trends versus 1 Q 14 primarily reflected foreign currency translation benefits driven by the strengthening of the U.S. dollar, lower raw material cost imports and improvements in working capital efficiency. Our networking capital remained a modest 11% of sales. For the full year we continue to anticipate a slight decrease in net working capital compared to 2014.

Finally, proceeds from the bond deal were used to fund our growth programs, increase liquidity and repay \$40 million of near-term maturities.

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

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

Thanks, Bill.

Tuning to slide 13, in summary our reported segment EBITDA increased 6% to \$127 million or 13% on a constant currency basis. Our epoxy phenolic and cody resin business demonstrating year over year improvement with strong performance in specialty epoxy resins and continue improvement in base epoxy resins. The forest products business reflected strength in North America offset by planned customer turnarounds and lower sales of [trysine] to the oil industry impacted our formaldehyde volumes.

Our expectations regarding the supplier outage impacting our Versatic acid business remain unchanged as we expect the outage to be resolved by the third quarter this year. The impact is expected to be substantially offset by the \$30 million structural cost savings program. The company is covered for losses under its insurance program and is in the process of pursuing recoveries. We've already received our first insurance payment of \$9 million which nearly offset the 1Q impact which is still being finalized.

In addition, currency headwinds of \$9 million were partially offset by cost saving initiatives of \$4 million in the quarter. We remain committed to executing our strategic growth investments, our formaldehyde projects remain on pace to come in online later this year and early '16 to meet existing customer demand and support future growth.

In closing, we were pleased to complete our April 2015 refinancing when we received commitments to amend our ABL facility which reduced our pro forma liquidity to \$763 million.

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

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**Operator**

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

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

Good morning, gentlemen.

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

Good morning.

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Hi, Tarek. How are you?

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

Very good, thanks. As you think about the sort of 280 basis point, you know, roughly margin pick up this quarter over last quarter, you know, much of that do you view kind of that structural given some of the cost savings you push through business and market tightness in some of your segments versus how much of that you expect is just sort of a function of the raw material volatility and you're likely to get back over the next couple quarters?

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

Well, I think there's two aspects. Go ahead, Bill.

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**Bill Carter** - *Hexion Inc - EVP, CFO*

No, you go ahead, Craig, please.

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

Yeah I think there's two aspects that, you know, come into play as far as, you know, what's going on in the marketplace. One is you -- you sound like you're really referring to the lead lag aspect which will have a disproportional impact in the first half of the year, but we think there will be ongoing significant savings to be had, partly because, you know, about 50% of our business is not contracted so we can retain that, and the other thing is we have ongoing productivity savings continuing to identify new in our secondary materials not our primary. And those are not correlated on a lead lag sort of basis, on an index.



The other aspect, thought, which impacts it is just the numerator and denominator aspect of, you know, declining revenue which also increases. And that will be impacted as [raws] do return and there will be the natural just mathematical equation which gets altered. So, I think the majority of those savings just on a lead lag basis will be able to maintain and will continue to drive other productivity initiatives, but there will be a numerator denominator aspect which always impacts as revenue grows just because raws get inflated.

So, I don't know if that answers the question, Tarek, but there was sort of two elements to that.

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

I got it. That's helpful. I guess second we've been hearing some sort of talk of tightness in some of the epoxy markets like vicinal in Europe, have you guys been seeing that in your business kind of in the second quarter?

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

Yes, there is a phenol outage of force majeure with [sepsa] that's occurred that's made phenol tighter. Additionally, as we referenced in the last call, Asia had gotten tighter and we are still shipping product into Asia. So yes, it is impacting our berry business in a positive way and we think that'll continue to be true through the second quarter into the third quarter.

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

Great. And then just last one for me, on the -- on the pension accounting change, you know, sort of any kind of number you can give us and kind of what the sort of impact of that accounting change was on EBITDA during the quarter, if any? Sort of how...

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, a way to think about it is you think about Q1 of '15 EBITDA was benefited about \$5 million and Q1 of '14 it was benefited about \$3 million.

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

Got it. That's super helpful, thank you.

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**Operator**

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

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Hi. Thank you for taking my questions. In forest products, is there any - Hi. In forest products, could you possibly quantify what the impact of the formaldehyde customer turnarounds was in the quarter? And those customers, are they back up and running in the second quarter?

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

Yes, I mean, it's roughly about \$2 million and they are back up and they are, you know, they do these routinely MDI and other customers routinely do their turnaround some -most of them are planned and well known, sometimes they'll have the unplanned outage, but they are back up and running, and we consider that more to be a first-quarter event.

The other impact that impacted roughly worth \$2 million was the triazine impact which is directly oil related and we don't anticipate that to come back until the oil market rebounds to some extent.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Got it. And then with regard to the Versatics supplier force majeure, could you possibly quantify what the impact was in the first quarter? And then the insurance money that you guys got back in, I just wanted to clarify, those proceeds came in in the second quarter, or was it actually in the first quarter? And then when would you expect additional insurance money to potentially come in the door in the future?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, and maybe taking them in a reverse order. In terms of the proceeds, they actually came in early in the second quarter. We recorded them in the first quarter because we had positive confirmation from our insurance company they would be sending them and when we got them early in the second quarter.

We've additionally also just received notification that we'll be getting another \$6 million in proceeds, likely in the second quarter as well. And then obviously, once the force majeure is resolved we'll finalize losses in terms of final insurance recovery. Basically the -- the recovery we recorded in the first quarter largely offset the EBITDA impact in the first quarter, so it was kind of a net zero in terms of EBITDA impact less recovery.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Got it. That's very helpful. And then turning to the base epoxies segment, when we look at margins going back into the precursors as well, in the first half of 2015 it looks like they've seen pretty dramatic improvement. Can you just talk about how profitability and base epoxies is trending in the first half of 2015 compared to that last peak in the cycle in that 2010, 2011 timeframe? Are we still your, you know, considerably below those levels, or are we, you know, getting back up towards, you know, normalized or even peak type margins in that business?

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

Yes, we, you know, referencing recent times here, the last year, year and a half, two years, it's a significant improvement because we're pretty much through conditions, but we're nowhere near the levels of 2010, 2011. Those were extremely positive times, and while we're showing improvement, you know, are positive on EBITDA you can't really reference the 2010, 2011 in terms of being close proximity to that. It's still a pretty significant gap.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

And that's just because utilization rates today are a lot lower than they were then? Or is it that the actual, like, raw material margins today versus that time period are a lot lower?

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

Well, I think that, you know, part of it is just China's added significant capacity from that time period, so it's a little more difficult to get back to that. Second, there were some unusual events back then which really tightened the market very rapidly, including environmental regulations in China being enforced which took out a number of plant CCH wastewater and [sediment].



And so could, you know, you see another significant jump? Yes, but it's difficult to reference those very, very peak cycles. I really think of them as an anomaly. Could you get, you know, significantly back in that direction? Yes, but we are -- none of our business plans are based on returning to those peak EBITDA levels in berry.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Got it. And then my last question, in proppants your largest competitor in resin coated sands I think said on their call yesterday that resin coated volumes and pricing for their first quarter were down about 10% on a year-over-year basis. You know, were those declines, is that roughly similar to what you guys experienced in the quarter? And then I guess, looking to the back half of the year it seems like the industry is anticipating a bit of a bounce back in the second half. Is that consistent with what you guys have been expecting?

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

Yes, I'd say we saw a little bit more of a drop than they referenced. There's always a mix issue there that can lead to different amounts of drops and what product are you selling or not selling, but I'd say the drop was little bit more steeper than they had referenced. As far as the second half goes, there's certainly a scenario out there that people believe, you know, wells will start to come back on and things will firm up a little bit, but for every person who's been forecasting that, there's others that say, you know, you are in for more of a prolonged period, probably a year and a half to two years before you see a slow climb out.

So, we still consider the picture to be quite muddy and, you know, we talk to a wide variety of [Enue's] customers so I think we have a pretty good view of the market just like they do, but I find it a little more difficult to come up with a very exact second half or not. It's certainly one of the scenarios we look at, it's one of the scenarios we model, but I couldn't say it's the prevalent scenario over a number of other things.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Okay, great. Thanks a lot, guys.

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**Operator**

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

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**Roger Spitz** - *Bank of America - Analyst*

Thank you, good morning. I wonder if I might try to pin you down a little more on [province], would you be willing to say how far your Q1 '15 EBITDA as a percentage might've been down versus Q1 '14, or Q4 '14 or some other benchmark without giving away the absolute dollar figure?

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

No, we're really not giving away percentages on that, Roger. You know, it's been significant as we had expected, but we're not -- were not talking percentages for competitive reasons.

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**Roger Spitz** - *Bank of America - Analyst*

Are you seeing province customers shifting to raw sand from resin coated sand?





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

Yes, and we've talked about that on other calls and I think the industry has talked about that. I think you've always seen that in other economic downturns. Resin coated proppant is, you know, a proven technology that works. It's particularly applicable to horizontal wells and things of that nature, which are becoming more prevalent, but it's always been fairly well-known that, you know, when you get into very steep downturns, the shorter term cost-saving initiative is just to go to raw sand for certain types of wells that might be on the border. And, you know, clearly that has happened to some extent, and a fairly significant extent, and so, you know, it's definitely a secondary factor that's, you know, impacting the overall industry.

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**Roger Spitz** - Bank of America - Analyst

Any - are you getting any benefit from a geysers? Customers had been using ceramics going, you know, stopping at resin coating as opposed to those who talk about jumping all the way to raw sand?

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

Yes, I mean, there's always a drop-down effect that, you know, the more expensive technology, they still need some of the benefits, but they don't feel they have to go all the way to ceramic and they can get a more cost-effective solution in resin coated proppant. So, that definitely is seen but it's not nearly large enough to offset, you know, other negative factors going on in the industry like the shutting down wells.

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**Roger Spitz** - Bank of America - Analyst

Okay, and base epoxies EBITDA, can you give any sense of sort of where you were? Was it slightly positive, very solidly positive, any insight you can provide?

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

Yes, I'd say, you know, we were, you know, moderately positive. You know, like I said, it's not close 2010, 2011 but we had crossover in a positive territory and - but, you know, it's still well off of peak periods. That's about as much guidance as I'll give.

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**Roger Spitz** - Bank of America - Analyst

What was Asia historically exporting into Europe before this - before this, the tightness, was it was it mainly BPA, or was it LER, possibly [EPI].

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

Yes, I mean, I'd say the largest that they were shipping in was the BPA in the LER, and the exchange rate has clearly helped there as well as some tightening in the Asian market around some of those things. So, I'd say those were probably the two biggest things that we've seen imported.

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**Roger Spitz** - Bank of America - Analyst

Lastly, forest products, the North American strength, was that all in formaldehyde or was any of that in the resins?



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

It was -- the largest factor by far was the North American resins and formaldehyde was slightly weaker due to the other factors we had talked about which was, you know, the triazine, you know, and just the customer outages. But, you know, the customer outages we think will be bouncing back in the second quarter and the triazine, you know, will work its way back as the oil industry starts to recover.

**Roger Spitz** - Bank of America - Analyst

I'm getting that the resin...

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

But the North American resins had a very -- the North American resins had a very strong year-over-year growth.

**Roger Spitz** - Bank of America - Analyst

Presumably more in plywood than in OSB. Would that be fair?

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

Well, yes, I mean plywood is, you know, we serve all of those in the, you know, as you are probably well aware of the OSB market is under a bit of its own duress in terms of pricing, but regardless of that, you know, as long as they're producing and selling, we're still capable of selling our product in. And I think we've done a very nice job of differentiating ourselves from competitors in the marketplace, so we feel we're in a good position going forward to continue to benefit.

**Roger Spitz** - Bank of America - Analyst

Thank you very much.

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

Thank you, Roger.

**Operator**

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

**Brian Lalli** - Barclays - Analyst

Hey, good morning, guys.

**Bill Carter** - Hexion Inc - EVP, CFO

Good morning.



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

Hey, Brian

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**Brian Lalli** - Barclays - Analyst

Maybe first - Good morning. Just a quick follow-up first on, it was Adam's question, on the insurance proceeds. Am I to understand that the \$9 million that you mentioned, is that included in adjusted EBITDA? It sounds like it is as an offset to the outage impact on your costs of good sold but I just wanted to confirm that.

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**Bill Carter** - Hexion Inc - EVP, CFO

Yes, about \$7 million of it is included in adjusted EBITDA. There were certain items that we included we excluded from adjusted EBITDA but \$7 million of the \$9 million is included.

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**Brian Lalli** - Barclays - Analyst

Okay. And then maybe this segues well to my next question, just on the - the other adjustments, it looks like that went up about \$9 million year-over-year. Is that -- is that the jump in that or is - maybe if you wanted to walk through what's maybe included in that other adjustment bucket, if that's possible?

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**Bill Carter** - Hexion Inc - EVP, CFO

Yes, other -- the big pieces in there are long-term retention business optimization costs. We had a pension settlement cost last year, some startup costs for our China JV, some non-cash losses, those are the biggest buckets there.

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**Brian Lalli** - Barclays - Analyst

Got it. Okay, that's great. And then maybe -- maybe moving on into, you know, to the - just the follow-up on the property side of the business. Maybe first off, I'd say, you know, good color last quarter on the percentage of sales that you, quote, you know, was sort of linked to energy. I believe it was 12%. If it's possible, is there a new percentage you'd be willing to share on the LTM amount? Obviously we've seen headwinds from various pieces on the top line, is there any guidance there and what maybe that new percentage of sort of energy linked sales are?

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**Bill Carter** - Hexion Inc - EVP, CFO

Yes, I would say...

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

We haven't disclosed - go ahead, Bill.

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**Bill Carter** - Hexion Inc - EVP, CFO

I was going to say, at this point we do not have new guidance on that and I would, you know, we'd stick with what is out there.

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**Brian Lalli** - *Barclays - Analyst*

Okay, that's fine. Maybe on the margin side then, you know, appreciate that you don't want to give dollar figures, could you give us maybe directionally how you're seeing margins move in the prop inside of the business? Are you seeing sort dollar for dollar top line headwinds flowing down to EBITDA or maybe some of the raw materials actually helping to prop up margins on that side of business in the resin coated sand? Any guidance there would be helpful. And then I have one more after that and I'll pass it along.

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

Yes, I mean, I think that, you know, there are offsetting factors with raw materials, obviously we would negotiate very hard, especially in times like this. I mean, negotiate hard all the time but clearly you have the backdrop of an industry downturn that gives you more leverage when negotiating. So we see some of that, but still, I think, between volumes lost which drive the revenue but then also margin pressure applied to us as customers leverage their limited volume they do have. It's a disproportional impact on margin.

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**Brian Lalli** - *Barclays - Analyst*

Okay. Understood. And then the last one for me, and maybe operating under the assumption that raws from here just stay flat. Again, I know that that's not exactly easy to say happens, you can't look into the crystal ball, but should we expect any additional sequential improvement in EBITDA purely based on the lead lag impact on raw materials as we look into the second quarter? Meaning something that just flowing through your income statement that we should make sure to model in one way or the other yeah.

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

Yes, I wouldn't say we have the kind of visibility nor do we give that kind of forward-looking information to that level of detail, you know, so I wouldn't start modeling in either direction on that.

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**Brian Lalli** - *Barclays - Analyst*

Okay, understood. Thanks for the time, guys, I'll pass it on.

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

Thank you.

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**Operator**

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

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

Yes, thanks. Good morning.

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Good morning.

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

Hi.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

Just in the basic epoxy resins business, when you guys think about that in the -- in the first quarter versus, you know, call it on a sequential basis from Q4 as well as year over year, how much of the improvement do you think is happening there just because of these customer outages are being -- supplier outages over in Europe which is generally helping tighten the market, and also comparing that versus how much is because of the trade flow disruptions versus actual end market demand improvement?

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

Yes, I mean, you know, clearly end use market continues to grow in epoxies. It is a product line that, you know, has grown over time, so that's clearly a positive factor, but when you see the kind of movement that we've seen, it also has the largest impact is the events that have occurred both in Asia with outages there, both unplanned and planned, and now in Europe with force majeure and phenol which will tighten up the market on things like BPA and other things.

So, I would say more of it tends to be the outages in the long-term, the longer-term factor, if supply doesn't continue to be added, and we think the vast majority of that is in place already. Then it will transition to the inherent growth in the industry, but right now when you see these kind of pops that are initially occurring they tend to be event driven, but I think it will start to transition to the natural growth.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

And then just with regards to your own business, how much are you exporting out of the U.S. and have those trade flows changed, i.e. not going into Europe and going to other regions?

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

Yes, we don't divulge how much we're shifting and it does change based on FX and things of that nature, but right now, you know, obviously with the U.S. dollar being so strong it's going to adversely impact your exporting, but it's not having a major impact on the profitability of the business one or the other right now from the U.S.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

Okay, and then just final question, on the formaldehyde expansions, can you just help us, give us some thoughts on how that might flow in the EBITDA over the coming quarters?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, as you think about that, we've -- we've got a couple plants that will be completing the end of this year, so you really won't see any true flow into EBITDA until we get into next year. And then the third one is coming up the third - the first quarter of 2016 so that'll start flowing in the second half.

**Bill Hoffmann** - *RBC Capital Markets - Analyst*

And, Bill, what's the overall total expected EBITDA generation out of all of those new plants?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, what we've previously disclosed we believe is still accurate is \$30 to \$35 million for the three plants.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

Great, thank you.

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

Thank you.

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**Operator**

The next question comes from the line of Lauren Gallagher with Credit Suisse. Please proceed.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

Good morning. Thanks for taking a couple of questions. In terms of the cost saving, you've kind of talked to seeing \$4 million in the quarter, do you still expect to achieve around \$23 million for fiscal '15?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, we do.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

And in terms of kind of more clarified timing of when those actions start to benefit cash, do you tend to think that it'll be more second-half at this point?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, because I think as we've talked previously there is obviously the one time cost of getting those actions which we disclosed is about -- about \$25 million. So, we've executed on many of those actions already and that's the EBITDA you start seeing flowing into our earnings. The cash spending to get those actions basically applies relatively rapidly over 2015.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

Okay, great. And then following up, can you kind of talk to what, I'm not sure if you're willing to disclose this, what your current cash balance is after the April transactions?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, I mean, you know, as we've talked about, after the April transactions our liquidity went up substantially, so our pro forma liquidity is about \$763 million. You know, we have full availability of our revolver after the -- after the transaction and, you know, the remainders would be in cash and international availability.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

Okay. And on unrestricted -- restricted cash is still a similar amount to the way it's been in the past?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, that hasn't changed.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

Okay. Great. Thank you very much.

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**Operator**

The next question comes from the line of Maryana Kushnir with Nomura Asset Management. Please proceed.

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**Maryana Kushnir** - *Nomura Asset Management - Analyst*

Hi. Regarding proppant volumes, as we think about remaining - as we think about the future, how much more weakness versus the current quarter can we see? Meaning did we adjust already to the much lower level of drilling activity, or is there another adjustment that we need to make to the volumes?

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

Yes, I think it's continuing to weaken. You know, it's not so much a difference for March but when you think of a quarter, January was not as depressed as March eventually became, so I think you may see some incremental weakness in the second quarter. I do believe, and again, earlier I made the comments that in the second half of the year you may start to see a rebound kind of thing. It's difficult, I'm not sure if I'd call it a rebound, but it might be a little bounce off the bottom as things steady.

But, you know, our projection right now would probably be the second quarter will be the low point just because the first month plus six weeks, eight weeks or so were a little stronger than the last, and then having a full quarter at the full trough conditions I think is where you'll see the second quarter. So, I do believe that will be a low point as it starts to work its way out slowly, but it's very, very difficult to project how much it will workout in the second half of the year.

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**Maryana Kushnir** - *Nomura Asset Management - Analyst*

Okay. And in your prepared remarks and in the press release you listed improving in base epoxies specialty and forest resins for one - as reasons for stronger EBITDA. Is that the order of the contribution, meaning base epoxies contributed the most in sense of forest, or am I reading into this too much?



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

No, I think I base epoxy on a year-over-year basis was the biggest single contributor, specialty epoxy, you know, actually North American resins, no, specialty epoxy was the next and North American resins will follow after that. And all three had very strong year-over-year growth.

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**Maryana Kushnir** - Nomura Asset Management - Analyst

Okay. And for the next few quarters do you think that will be a similar trend given -- given base business was still fairly -- what was very weak last year? Would it have a similar year-over-year impact?

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

I mean, the one headwind you run into a little bit with base epoxies is not so much market-driven but the fact that we'll have some turnarounds going on. So, that'll cause some internal tightness that really is not market-driven. And the exact extent of that, we'll have to wait and see whether, you know, it has any real negative offset or whether we can offset it with the market, but that is the one thing that is different. I don't think the market will be different per se, it's just that we'll now be doing some turnarounds in a number of our plants.

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**Maryana Kushnir** - Nomura Asset Management - Analyst

Can you be more specific on which plants and when?

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

No, we really don't get into plant specific capacity details or anything of that nature, but a couple of our plants will be having turnarounds in the second quarter.

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**Bill Carter** - Hexion Inc - EVP, CFO

Yes, I would say generally our turnaround schedule in '15 is, you know, relatively close in terms of spending to '14.

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**Maryana Kushnir** - Nomura Asset Management - Analyst

Okay. And then, just to summarize this improvement in epoxies, so is that sustainable? Can we expect this market to slowly grind higher? How should we think about it?

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

I mean, it's an excellent question. I mean, we have seen period where, you know, the market has due to external events stayed elevated for a couple of years. What's different is a lot of the building that's going to occur has already occurred, and like I said, epoxies does globally have a good growth rate. So, the one factor is, can you actually start to, you know, have utilization significantly absorbed by legitimate growth. And that is what would have to fundamentally change to make it a prolonged, more permanent chain.

We haven't seen that yet right now, it's still being driven by, you know, events within the industry, but it certainly could happen. It's just a little difficult to project and predict. The second thing that could happen is the Chinese government, either through a conscious decision around



environmental or in tightening up its own industries which it's talked about, could force consolidation in excess capacity taken out as they start to focus more on profitable growth versus growth for the sake of it.

Something else that could certainly have an impact, but right now we're still more in the mode of cycles are being driven by industry events, but it certainly could change going forward and have a more sustainable profitability. I just haven't seen enough evidence to say I think that's the driver and that will happen, but certainly there are scenarios that could be very valid that might cause that.

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**Maryana Kushnir** - *Nomura Asset Management - Analyst*

Okay, thank you.

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

Thank you.

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**Operator**

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

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

Good morning and thanks for taking my question. First one is regarding your working capital. You had a favorable trend in the first quarter, just want to see what your thoughts for the following quarters and whether you view that as a source or use of cash in 2015?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, our expectation is we will be a user of working capital in the second quarter because for us, you know, many of the business lines we have are feeding construction, especially in the northern hemisphere so we do, you know, atypical build and that would be in line with prior years. We would also expect to generate working capital in the second half, especially in the fourth quarter. And again, that would be many of the same construction markets and the reduction sales in the fourth quarter in terms of usage of working capital.

So I think from a trend perspective in terms of the pattern of working capital, we would expect, you know, '15 to have a similar pattern to prior years.

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

And for the full year, do you anticipate this could be a source of cash?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, I - as I think I mentioned in my comments, we'd expect a slight reduction in terms of '15 versus '14.

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

Okay, great.



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**Bill Carter** - *Hexion Inc - EVP, CFO*

So, a slight benefit.

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

And during the last conference call you mentioned you expect the lower oil prices to have a net neutral impact to the overall business in 2015. Is that still your view or has that changed?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

No, that would - that would still be our view.

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

Okay. And just a little bit about your wind energy business, just trying to understand, like, what type of gross rate that business had over the last few years and how big of a market you think that could be of your overall sales in the near future, because roughly, and we understand that's about 6% and, you know, how far you think that can really grow to maybe, you know, in the next three years?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, I don't think we want to...

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

Yes, I mean...

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Go ahead, Craig.

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

Go ahead, Bill. Well, no - sorry, Bill and I are in different locations so we're stepping on each other a little bit. Normally we're in the same room. You know, its strong double-digit growth over the last, you know, two to three years and, you know, we're not projecting, you know. We think over the longer-term, medium-term this will be a very good market, but we're not giving out projections for the next year or two on specific growth rates. But, you know, it's been a strong double-digit growth on volumes.

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

Okay, I appreciate that. Thank you.

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

Thank you.

**Operator**

The next question will be a follow-up from Bill Hoffmann with RBC Capital Markets. Please proceed.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

Thanks, my question was asked. Thanks.

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

Operator, is there anybody else in the queue? His question had been asked.

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**Operator**

Last question in the queue comes from Adam Goodwin with Goldman Sachs. Please proceed.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Yes, I just had a quick follow-up as it relates to free cash flow. I think on your recent fist lean deal call you had said that you would expect to be, you know, close to cash flow break ever for full year 2015. Are you still reasonably comfortable with that notion?

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**Bill Carter** - *Hexion Inc - EVP, CFO*

Yes, I think you are right. We talked about, you know, getting near break even. I think I referenced, you know, possibly small usage to break even and I think we're - we're still comfortable with that.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Okay, thanks a lot, guys.

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**Operator**

There are no further questions in queue at this time. I would now like to turn the call back over to Craig Morrison.

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

Well, I'd like to thank everybody for your participation today and for the questions. And we will look forward to talking to you on the next call. Thank you very much.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.

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