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EDITED TRANSCRIPT

- Q2 2014 Momentive Specialty Chemicals Inc Earnings Call

EVENT DATE/TIME: AUGUST 13, 2014 / 1:00PM GMT



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PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to the second quarter 2014 Momentive Specialty Chemicals conference call hosted by John Kompa. My name's [Benny] and I'll be your event manager this morning.

(Operator Instructions).

And now I would like to hand over to John. Please go ahead.

John Kompa - *Momentive Specialty Chemicals - VP - IR & Public Affairs*

Thank you, Benny. Good morning and welcome to Momentive Specialty Chemicals second quarter 2014 earnings conference call. Leading today's call will be Craig Morrison, Chairman, President and CEO; Bill Carter, Executive Vice President and Chief Financial Officer; and George Knight, Senior Vice President, Finance and Treasurer.

As a reminder this call is also being webcast and the slides referenced in today's conference call are available through the Momentive.com website under the investors relation section of Momentive Specialty Chemicals. A replay of this call will be available for one week and the replay dial in information is contained in our latest earnings release.

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

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

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

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

Thanks John.

Turning to page four, our second quarter revenues are \$1.4 billion, a 7% increase, while segment EBITDA increased by \$2 million or 2%. Our global forest product EBITDA increased 10% which reflected year over year gains in North American [resins] and formaldehyde as well as improved performance in Europe.

Latin America was negatively impacted by the slowdown in Brazil as a result of the World Cup. While EBITDA declined slightly in our epoxy, phenolics and coatings division, we continue to experience strong demand in our oilfield, specialty epoxy and Versatic acid businesses, offset by continued softness in our dispersions business in Europe and our base epoxy resins.

Turning to slide five in our combined raw material index, you can see that raw material input cost decreased modestly in the second quarter of 2014 versus the first quarter of 2014. Compared to the prior year period, raw materials remain mixed.

We saw decreases of 1% and 3% in phenol and urea respectively, while experiencing a 16% increase in methanol during the second quarter. I should caution that raw materials remain volatile.

For instance we saw phenol spikes of 12% in the U.S. and 10% in Europe in July. We continue to remain vigilant on the pricing front to effectively manage the raw material volatility.

Turning to slide six, you can see the effect of a steady focus on research and development. The bar chart on the left represents the recent growth trend in new products developed over the last five years as a percent of sales.

In 2010, 18.55% of our sales were from new products. As of LTM June 30, 2014, this grew to 22%. This is the direct result of an increased focus on innovation and revitalizing our product lines. Particularly within forest product resins, our specialty epoxy products, and our oilfield business.

Our new product development track record also reflects our steady investment in R&D and our global network with six key innovation centers spread across the U.S., China, India and Europe. Key to our ability to innovate are the diverse and attractive market segments that we participate in.

Wind energy and oilfield are two examples but our applications range from automotive to construction, electronics, mass transportation, and many other segments. Let me now turn the call over to Bill Carter, our CFO, to further discuss our results. Bill?

Bill Carter

Thank you Craig.



Turning to our epoxy, phenolic and coating resin segment, second quarter 2014 revenue totaled \$862 million, an 8% increase on volume gains of 9% and a currency translation benefit of 2%, offset by price mix declines of 3%. Our portfolio is delivering mixed results as segment EBITDA decline slightly compared to the prior year.

Strong gains in our specialty portion of the portfolio were offset primarily by continued cyclical and base epoxy resins. Turning to select product lines, our specialty epoxy resins business increased significantly year over year due to strengthening demand in the wind energy market in China.

Our oilfield profits business also grew year over year due to new customer [wins] and our continued new product development efforts. Our recently acquired oilfield site in Shreveport continues to perform well.

These trends were offset by our base epoxy in European dispersion businesses which continued to be under significant pressure. Turning to the next slide, in our forest products resin segment, sales totaled \$475 million, an 5% increase with price mix improvement of 6% and volume gains of 1% offset by negative currency translation of 2%.

Our segment EBITDA gains reflect year over year gains in North America resins and formaldehyde as well as continued positive results from our streamlined European operations. We're also pleased with our EBITDA margin gain of 60 basis points as we continue to experience positive product mix while carefully managing cost.

Regarding our balance sheet, we continue to benefit from a significant liquidity position with cash plus borrowing availability under our credit facilities of \$466 million as of June 30th and no near term debt maturities. Our capital expenditure investments totaled \$78 million in the first half of 2014. We continue to expect to invest approximately \$185 million to \$210 million in CapEx for the year.

Our networking capital totaled \$703 million at the end of the second quarter. As anticipated, networking capital increased versus year-end, due to higher volumes from improving demand and seasonality. For the full year, we expect only a modest increase in working capital compared to 2013 of about \$25 million.

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

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

Thanks, Bill.

Turning to slide 13, our forest products business posted strong quarterly results due to the continued gradual recovery of the North American housing market, improved results in Europe and overall product mix and productivity. Our epoxy, phenolic and coatings resin segment reflected strong oilfield, Versatic acids and specialty epoxy performance offset by cyclical and base epoxy resins and European dispersions.

Our long term growth continues to be supported by some of our recent strategic investments such as our recent Shreveport acquisition, our phenolic specialty resins joint venture in China, set to come on line before year end 2014, and two new formaldehyde plants currently under construction.

We remain focused on driving ongoing cost control initiatives and liquidity as our healthy balance sheet includes \$466 million of cash and available borrowings. Thank you for your continued interest in the Company. And I'll now return the call to John Kompa.

John Kompa - *Momentive Specialty Chemicals - VP - IR & Public Affairs*

Thanks, Craig.

Benny, if you could please open the line for questions and remind the callers of those instructions please.



QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions).

Your first question comes from Tarek Hamid, J.P. Morgan. Please go ahead.

Tarek Hamid - JP Morgan - Analyst

When you look at the base epoxy portion of the business, how much of that is external sales at this point versus your own internal consumption of base resins?

Are there any metrics that you can help us think about?

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

It's generally about a 50-50 split right now in terms of that particular portfolio.

Tarek Hamid - JP Morgan - Analyst

Any thoughts about changing, sort of shifting that to just all internal consumption or more internal consumption over time? Or are you happy with the mix as it is?

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

No we're aggressively looking at actions and accessing those to optimize that business. There's nothing to announce right now but assessing various alternatives that would improve the performance.

Giving the extended down turn that we're in, it's certainly something we're assessing and we'll do what's necessary to optimize the business going forward. But we have nothing to announce at this time.

Tarek Hamid - JP Morgan - Analyst

OK. (Inaudible) [First noise] on the profit side about some of the producers moving towards an uncoated sand [frack]. I certainly see you guys move away from ceramic to uncoated sand.

Are you seeing any impact there over the last few months or is that really more of a ceramic issue?

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

No, that's something that we constantly monitor and continue to work on. We believe is very legitimate benefits to resin coated profits in term of flow back from [wells], increased production.



But there's no doubt that at times, [these] various fracking companies come under pressure. You know they'll look for cost alternatives and while the initial outlay of raw sand is cheaper, we believe the degradation, especially in some of the larger horizontal wells, [deeper] wells etc, warrants our type of product.

There's no doubt that from quarter to quarter you may have fluctuations. That's inevitable but overall we still think it's a very positive trend.

Tarek Hamid - *JP Morgan - Analyst*

Got it. Thanks, good for me.

Operator

Thank you. Next question comes from [Adam Goodwin] from Goldman Sachs. Please go ahead.

Adam Goodwin - *Goldman Sachs - Analyst*

Were there any one time or manufacturing related cost that were incurred in the epoxy, phenolic and coatings resin segment in the quarter?

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

I don't think we had any significant one-timers in the quarter that we would kind of spell out in terms of any issues.

(Multiple speakers).

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

marketing turnarounds aren't really scheduled for the fourth quarter. Where we'll be absorbing. Those are our planned turnarounds though.

We haven't had major outages that have impacted performance.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. So I guess going through all the [books and text] of the epoxy and phenolic segment, it sounds like specialty epoxies and [profits] continue to be pretty strong but the base epoxy segment looks like it must have deteriorated a bit on a sequential basis.

I mean what's been the big driver of that? Some of what we've been reading suggests that epoxy prices in China have actually moved up which has provided relief for to producers in the U.S. and Europe.

Are you not really seeing that at this point?

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

We're not seeing a significant rebound per say. You know if you -- there are certain cases where you see slight price relief. We're not seeing the deepening of the trough significantly.



But we're not at a point yet where we're seeing significant improvement. So there's not enough of an aggregate mass out there in terms of a trend in the marketplace yet that we see really flowing through.

It is something we're constantly probing on in the marketplace. We track very detailed monthly where we try to get priced what happened. Did you in fact -- were you able to get price?

Did you lose market share etc? We think we have pretty good market intelligence and we're not seeing a significant change at this time.

Adam Goodwin - *Goldman Sachs - Analyst*

Sure. based on what you've seen thus far for the month of July, with cost having moved up, and it sounds like pricing not getting a ton of traction there at this point, would you expect base epoxies to be weaker on a sequential basis in the third quarter relative to the second quarter?

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

Right now, we wouldn't project it to be weaker. Obviously, you still have a significant portion of the quarter to go yet but right now when you look at -- we wouldn't project a weaker quarter.

But again, we're not seeing a major improvement either.

Adam Goodwin - *Goldman Sachs - Analyst*

OK. Last question- it looks like you drew on the revolver just to fund some of the working capital built in the quarter.

As you generate cash in the back half, would your expectation be that you would pay down the balance on the facility in the back half of the year?

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

Yes. That would be our expectation. And as I think I commented, we expect to generate working capital especially in the fourth quarter which has been our traditional trend.

So we would have a slight increase in working capital for the year. And that would simply be driven by higher sales in '14 than '13.

Adam Goodwin - *Goldman Sachs - Analyst*

True. Thanks a lot guys.

Operator

Thanks for your question. Next question comes from [Roger Spitz] from Bank of America. Please go ahead.

Roger Spitz - *Bank of America - Analyst*

Thanks good morning. (Multiple speakers). Based upon a [few] resins, can you give a sense of the EBITDA change, either --

Sequentially, was it down materially or just a little bit? Because it sounds like the specialty parts of your business are all up.



So I'm just trying to get a sense of how much the up was up and the down was down on a year over year basis?

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

The total epoxies, both specialty and base epoxies, we were up about 32% year over year with those two combined in. So the specialty epoxies more than covered a few million dip on a year over year basis in base epoxies.

That will give you somewhat of an order of magnitude in the change. And then the other major drivers were the weakness in the dispersions in the European business, largely [van] driven, and some end use market driven.

And also there were some weakness on our phenolics specialty resin business.

Roger Spitz - *Bank of America - Analyst*

By the way did you just say van (inaudible).

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

Yes.

Roger Spitz - *Bank of America - Analyst*

OK. (Multiple speakers). Spike is up on that and (multiple speakers) it [crowded] your margins a little bit.

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

Yes. Thank you.

Roger Spitz - *Bank of America - Analyst*

OK. In forest products are you seeing any margin expansion in North American or was that 6% price increase just keeping pace with raw materials?

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

We've seen a very consistent margin expansion over the last few years. Obviously any quarter may not.

You know new product development, reengineering of products, very specific pricing strategies have all been very effective. Obviously, when you see a spike in things like phenol which we're seeing currently in this quarter, that'll have immediate [lead] lag effect.

But overall the business has done a really nice job of driving margin improvements in that business including North America.

Roger Spitz - *Bank of America - Analyst*

Thanks. And last could you just update in terms of the contracts in just forest products. How the contracts work?



What percent is under contract, you know, lead lag, timing lags et cetera?

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

Yes, we have a substantial portion of that business under contract, in the 60% to 70% range. Those contracts are typically multi-year contracts.

And typically, as Craig just indicated, they have an adjustment mechanism in the contract in terms of adjusting for changes and raw materials pricing.

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

And generally, most of the contracts we've moved into about a 30 day lead lag situation so you will feel an impact when you have a sharp spike in phenol, methanol [percent] within the quarter.

But the lead lag is limited.

Roger Spitz - *Bank of America - Analyst*

So with methanol going down in the current environment that should at least help you for at least [time] some [indenture] back, sounds like?

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

(Multiple speakers) yes, methanol would be beneficial. Phenol would be a little more problematic.

Roger Spitz - *Bank of America - Analyst*

Thank you very much.

Operator

Your next question comes from Bill Hoffman from RBC Capital Markets. Please go ahead.

Bill Hoffman - *RBC Capital Markets - Analyst*

thanks, good morning. Craig, could you talk a bit more about Europe and kind of what's going on over there?

You talked about the dispersions business having trouble and we know [bees red] are having trouble over there but are you seeing [mind] trends deteriorate because of some of the situations going on in Eastern Europe? And maybe just some color on that.

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

Yes, you know, I think it's been, generally, and before we get to the more recent with the eastern European. As everybody's familiar, you know Germany's generally been quite healthy.



Northern Europe, Netherlands etc has been quite healthy. Southern Europe and France have been very problematic. I do think some of the issues in Eastern Europe are also even starting impact Germany and other things.

There's some uncertainty as to sourcing of energy, et cetera over the longer term depending on what happens in the relations. We're not seeing a dramatic fall off but the summer's kind of a different time period over there because it's the big vacation and there tends to be a slow.

I think we'll see more as we move through the third quarter and into the fourth whether there's any real impact. Right now, it's still largely along the geographical lines that I mentioned.

Bill Hoffman - *RBC Capital Markets - Analyst*

And does that mean that you feel like you're more heavily weighted as far as in the southern countries? Because we've heard from the other guys that this year has been a little bit more stable from a demand standpoint.

I'm surprised to hear that you're still seeing quite a weakness.

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

No, we're actually-- I'm sorry if I misled. But actually a number of our businesses have seen increases. I was just talking in a macro sense.

So I didn't mean to indicate our overall European business was down. We're more heavily mixed oriented towards the north than the south.

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

Our issues have been from a top line perspective. Year on year we are generally up but our margins have impacted, as Craig talked about, [vam] for instance in the monomers in our codings business or general price pressure we've seen in the basic epoxy business.

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

That was meant to be that very specific market segment per say not our total business. For instance, our profit is up very very significantly. And our forest products business in Europe, a lot of that is restructuring but also significant moves from market standpoint.

Automotive has generally done well for us. So I was talking specifically one business there which was the European dispersions. That also has more of a southern twist than most of our other European businesses and its it superficially impacted by the vam spike which negatively impacted us very significantly.

Bill Hoffman - *RBC Capital Markets - Analyst*

Thanks that's very helpful. And then just moving to the rest of the world category in [brick] and other countries, really not much to talk about. Really what the trends are right there?

What are you seeing in those markets for your businesses right now?



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

Yes, you know, when you talk about [brick], you know each country is very different. Brazil has clearly seen a major slow down because of the World Cup.

That will extend into July's. It's just starting to start up but we think it'll actually have a pretty good rebound coming out of that as it was artificially depressed because the country vertically came to a standstill.

You know Russia obviously has its own geopolitical issues so that's not a very robust environment. We just came back from China and had a very interesting review with Chinese economists over there.

It continues to be, by their historical standards, a rather depressed growth rate. That particular economist who was very forthright in speaking about the economy said the published growth rates is 7.3 or 4 % are inflated, are artificially inflated and not real.

That's probably 6% or slightly weaker than that which when you go back to the double digit growth rates that were historically the norm, that's quite a bit off from where it was. I think that we're all familiar that in India it continues to be a bit of a challenge and you know there's a lot of hope for the new government.

So overall the brick I think is more of a problematic than it would have been a few years ago. I think we all continue to be very optimistic in the longer term but it's certainly not been an overly robust year in terms of brick.

Europe we talked about a little bit and the U.S. everybody generally positive. Automotive has been very robust. Energy continues to be and with the [share] in natural gas plays we think the general industrial picture is very positive.

Housing's a little slower in the recent months than we would have thought. We continue to do very well in the second quarter with the [fort] business there but it's not growing as quick as we would have liked to have seen.

And we think that it will be just over a million housing starts instead of slightly over 1.1 now. But that's just one segment and hopefully that will rebound also.

Bill Hoffman - *RBC Capital Markets - Analyst*

Great, thank you.

Operator

Thank you. Next question comes from Richard Kus from Jefferies. Please go ahead.

Richard Kus - *Jefferies - Analyst*

Hey Good Morning. Just a couple quick ones for you. Can you talk a little bit about what organic growth was in the epoxies business without the recent acquisitions you did?

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

Yes, in terms of Craig's comments around specialty epoxy that is effectively, you know that improvement is effectively all organic growth. So as we think about the acquisition we made, those have been more in the oilfield business for us.



So the specialty epoxy business as we talk about, for instance, strength in wind energy, that is really us continuing to develop products that meet the needs of that market and continue to drive the significant improvement in that business.

Richard Kus - *Jefferies - Analyst*

Ok. Do you guys have a volume growth number ex the recent acquisitions or no?

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

Yes, we have. If you look at specialty epoxy, we've grown approximately 17% on a year over year basis [on volume].

Richard Kus - *Jefferies - Analyst*

OK. How about the overall business?

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

Are you talking about the entire [MSC]? No, you're talking just the...

Richard Kus - *Jefferies - Analyst*

I'm talking the encoding presence. You should I think 9% year over year but that includes recent acquisitions right?

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

Yes, that does include the oilfield acquisition which I think would be a couple percent of that at most. (Multiple speakers)...

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

6 to 7% of growth without it.

Richard Kus - *Jefferies - Analyst*

OK. Perfect and then on a sequential basis you did see a decline in the EBITDA margins in that business and I assume that in this quarter it includes more of a contribution from the Shreveport facility.

So can you talk a little bit about what the puts and takes are driving that decline?

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

Yes. You know you have somewhat of a mix of facts which was referred to earlier on. We do also sell raw sand to certain customers that we source.

So, there is a bit of a mixed effect from that and that's the primary driver versus degradation in pricing on the oilfield business, I'm talking specifically.



Richard Kus - *Jefferies - Analyst*

Sure. All right. Thank you very much.

Operator

Thank you. Next question comes from Adam Goodwin from Goldman Sachs. Please go ahead.

Adam Goodwin - *Goldman Sachs - Analyst*

I just had a couple of quick follow ups. Your corporate cost were up modestly from last year. What was the main driver of that?

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

The main driver of that is both, I would say, compensation cost from a raise perspective and an incentive. We in the second quarter of last year, in terms of where we were from a performance perspective, had reduced our approvals for incentives.

This year they're basically on plan tracking so there was an increase year on year I would say mostly driven by incentive with a compensation component.

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

There was about a four million number.

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

Yes.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. And then you mentioned in response to one of the questions that the phenolic resins business was particularly weak in the quarter. What's going on in that segment?

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

That was more mixed driven than anything else because we have a number of different segments. And some of our lower margin segments like our non-[moldings] were -- had a stronger sales mix than our molding compounds in some of the other segments that have high margins.

So we don't think it's a long term trend. You know we have those normal effects that go from quarter to quarter. I'd say moving into July the bigger challenge is the spike in phenol but you know that's a third quarter event not a second. (Multiple speakers).

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

We have a number of contracts where we will price through that spike but they'll be a lead lag impact.



Adam Goodwin - *Goldman Sachs - Analyst*

Great, thanks again.

Operator

Next questions comes from Marianna Kushner from Nomura. Please go ahead.

Marianna Kushner - *Nomura - Analyst*

Hi. I just wanted to clarify the issue of the third quarter seasonality. You made some comments and I just wanted to kind of get a summary of this.

You basically said that the slowdown in Brazil due to World Cup extended into July and then you have the European slowdown. So how should we be thinking about it?

Should the seasonality be more pronounced? And also I guess as we look at performance last year, [I believe you] said that the overall EBITDA basis second to third quarter numbers were flat but there were obviously a lot of things happening in individual segments.

So I just wanted to understand the seasonality outlook better for third quarter.

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

Yes, I think we are anticipating that our third quarter will be stronger than our second quarter. So our anticipation is to see a stronger quarter and that is across a number of different businesses in terms of their performance.

And then to completely the year, our fourth quarter is seasonally typically our weakest quarter from the perspective of the seasonality of many of the products we may feed into the construction industry.

Marianna Kushner - *Nomura - Analyst*

And you mentioned planned turnarounds for Q4. Would there be an additional impact from that or is it because they're planned you produce additional material and therefore [medicate] the impact?

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

So the way turnarounds impact us- we expense turnarounds in the quarter that they occur. So when we think about EBITDA in the fourth quarter -- because for many years we have significant turnaround for the fourth quarter that does impact earnings in the fourth quarter in terms of the cost of the turnaround.

We typically, build inventory prior to the turnarounds and that's why many times, in prior calls we've talked about inventory levels either in second quarter or in third quarter related to preparing ourselves for the turnaround. So don't typically lose any sales because we have adequate inventory to supply our customers while our plants our down but you do see the impact in the quarter we take the turnaround of the expense of the turnaround.

Marianna Kushner - *Nomura - Analyst*

OK. Regarding this epoxy specialty oilfield segment combined. So you made a statement that specialty epoxy more than offset weakness in the base epoxy.

So it seems like that epoxy is therefore was flat or maybe a little [battered] in overall. So that means that there was significant drag from the other segments offset by oilfield.

So what is the negative dollar impact from European dispersions driven by vam spike in particular? And do you expect to recoup some of that margin head?

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

Well it's the overall business was down a few million due to the dispersions issues in Europe. And you know the vam has come off from its spike but it's higher, still significantly, than on a year over year basis.

So there is a residual impact in terms and ability to price through can be challenging at times in that market. So you're not going to be as negatively impacted as when it had reached its absolute peak a month or two ago but you know it's not returning back to the levels it was a year or two ago either.

Marianna Kushner - *Nomura - Analyst*

OK. And you don't see any opportunity to raise prices in that business?

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

That's something we just like our other businesses, we are [varied] explicit tracking mechanisms and we're not seeing a lot of relief in the market in terms of ability to pass through there.

Marianna Kushner - *Nomura - Analyst*

OK. Thank you.

Operator

Thank you. Next question comes from [Mike Lane] from [TI Kraft]. Please go ahead.

Mike Lane

Thank you. I was wondering if you could comment on the status of the shared services agreement with Momentive Performance?

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

I mean we still have obviously a shared service agreement. We anticipate post emergence for when Momentive Performance Materials does emerge that that will be an ongoing agreement that we have with them.

And we find there is significant benefit for MSC in that agreement. We also find there's significant benefit for [MPM] as both in terms of a service capability delivering things that are mutual beneficial to both the companies at a very significant cost benefited where we talked about in our synergies.

So we consider that to be an ongoing agreement going forward at this time.



Mike Lane

OK. Thank you.

Operator

Thank you. The next question comes from Max Lee from Fore Research & Management. Please go ahead.

Max Lee - *Fore Research & Management - Analyst*

Hi and thanks for taking my question. Just one follow up on the oilfield services. Giving that we're hearing the noise about people switching from ceramic to sand and then you mentioned that you guys have been selling some raw sand as well.

I was wondering whether you can comment a little bit on the margin and volume in the oilfield services in terms of [call date] what you see from the first to second quarter and what you expect from the second to third quarter? Thank you.

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

We do not disclose the earnings of that business in terms of their results. I would say that we are expecting the third quarter to be stronger than the second quarter in terms of our oilfield business and really expect to see strengthening really in the second half.

Max Lee - *Fore Research & Management - Analyst*

OK. But from first to second quarter do you guys see growth in margin and volume as well?

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

A relatively flat first to second quarter and then we expect a to see growth in third and fourth quarter.

Max Lee - *Fore Research & Management - Analyst*

And that's based on just general growth in that business?

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

Yes, it's based on general growth. It's based on our new product introductions and we've been very successful in terms on new product introductions in that segment. So it's a number of factors that drive that.

Max Lee - *Fore Research & Management - Analyst*

And can you just comment on -- I'm just surprised you guys are selling raw sand because I thought there's always a resin code that stands.



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

Generally, we are largely a resin coated. There are specific customers, some very large customers that due to our distribution capability and our network across the U.S. and our ability to develop -- excuse me, deliver on very short notice, they've asked us also to handle their raw sand requirements.

And we've done that as a service to them. But our primary focus is clearly on the resin coated [profits]. And that's the vast majority of the driver of profitability for us.

Max Lee - *Fore Research & Management - Analyst*

OK. Great, thank you.

Operator

Thank you for your questions.

(Operator Instructions).

The next question comes from Roger Spitz from Bank of America. Please go ahead.

Roger Spitz - *Bank of America - Analyst*

Thanks for the follow up. it was in, as I recall, in Q4 '13 particularly [weak], you called out around \$16 million from drawing down the base epoxy resin inventory, that European plant issue and the oilfield trans load issues which sound like they were non-recurring.

Is that correct and maybe the Q4 '12 may be a better starting point when we look at Q4 '14?

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

I would say, and I'm just looking for a piece of paper, I think, probably to your point, that we certainly did call out several things in Q4 '13. I would have to go back and study Q4 of '12 but I think that's probably a reasonable assumption.

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

We don't have all of the detailed data there so we're a little reluctant to do that comparison but certainly you can follow up with John once we get a chance to dig into that a little bit.

Roger Spitz - *Bank of America - Analyst*

OK. In [BPA] can you give the internal versus merchants split in terms of buy ends these days?

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

We don't disclose that.



Roger Spitz - *Bank of America - Analyst*

OK. Can you talk about your [8 and 7/8 of one half leans] when you might consider addresses those?

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

We don't have any specific plans on that, as I think we've commented before, we certainly are cognizant of our capital structure and consider different things. But at this point we don't have anything to comment on.

Roger Spitz - *Bank of America - Analyst*

OK. And I don't think you've talked about this. In terms of taking share in profits that was above and beyond the Shreveport acquisition, is that correct?

And if so, was that based on sort of new products or taken from raw sand or from ceramics?

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

Yes, really the Shreveport acquisition was more of an acquisition on buying a facility. There was a little bit of residual impact but largely the growth is internal growth and a significant piece of that has been a very successful, as Bill alluded to, [Orel] plus product which has grown very dramatically allowing us too much more effectively penetrate oil.

Historically, we're much more focused on the natural gas wells. This product is allowing us to do a much better job penetrating the oil as well and that's been a big driver of our growth as well as to continuing to focus on taking share in the gas wells where opportunities exist.

Roger Spitz - *Bank of America - Analyst*

Lastly, just so I understand. Obviously you're talking about a [tippy] share in a new market and oil but are you -- when you're going after [versus] substitute materials are you basically trying to go after other users who are right now using phenolic covered resins or are you looking at people who are either using ceramic or raw sand?

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

It's all of the above. We'll look at trying to penetrate wells where raw sand is used and we feel can improve the overall economics of the well by stopping flow back and other issues that raw sand might have.

On the ceramic end, where opportunities and we have the right products and can actually be a more cost effective alternative, we'll look at opportunities there. And in oil it's obviously its own set of opportunities.

So it's really all of the above on that Roger.

Roger Spitz - *Bank of America - Analyst*

All right. Thank you very much.

Operator

There are no further questions and now I would like to hand the call back to Craig Morrison. Please go ahead.

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

We would like to once again thank you for participating in the quarterly call. And we look forward to updating you after next quarter. Thank you very much.

Operator

Ladies and gentlemen concludes the call for today. You may now disconnect.

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