



# Hexion Inc.

## Second Quarter 2020 Results

August 14, 2020

# Forward-Looking Statements

## Hexion Inc.



Certain statements in this presentation are forward-looking statements within the meaning of and made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, our management may from time to time make oral forward-looking statements. All statements, other than statements of historical facts, are forward-looking statements. Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “project,” “might,” “plan,” “estimate,” “may,” “will,” “could,” “should,” “seek” or “intend” and similar expressions. Forward-looking statements reflect our current expectations and assumptions regarding our business, the economy and other future events and conditions and are based on currently available financial, economic and competitive data and our current business plans. Actual results could vary materially depending on risks and uncertainties that may affect our operations, markets, services, prices and other factors as discussed in the Risk Factors section of our filings with the Securities and Exchange Commission (the “SEC”). While we believe our assumptions are reasonable, we caution you against relying on any forward-looking statements as it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, a weakening of global economic and financial conditions, interruptions in the supply of or increased cost of raw materials, the loss of, or difficulties with the further realization of, cost savings in connection with our strategic initiatives, the impact of our indebtedness, our failure to comply with financial covenants under our credit facilities or other debt, pricing actions by our competitors that could affect our operating margins, changes in governmental regulations and related compliance and litigation costs, uncertainties related to COVID-19 and the impact of our responses to it and the other factors listed in the Risk Factors section of our SEC filings. For a more detailed discussion of these and other risk factors, see the Risk Factors section of our most recent filings made with the SEC. All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The forward-looking statements made by us speak only as of the date on which they are made. Factors or events that could cause our actual results to differ may emerge from time to time. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

**This presentation contains non-GAAP financial information. Reconciliation to GAAP is included at the end of the presentation.**



# Hexion Inc.

## Q2'20 Financial Results

**George Knight**  
**Acting Chief Executive Officer**  
**and Chief Financial Officer**

# Overview of Second Quarter 2020 Results



Three Months Ended June 30			
(\$ in millions)	2019	2020	YoY Δ
<b>Total Revenue</b>	<b>\$ 892</b>	<b>\$ 628</b>	<b>(30)%</b>
<b>Net Loss</b>	<b>(108)</b>	<b>(42)</b>	<b>nm</b>
<b>Total Segment EBITDA <sup>(1)</sup></b>	<b>112</b>	<b>65</b>	<b>(42)%</b>

- Revenue totaled \$628 million, a decrease of 30% year over year
- Despite volume headwinds, net loss for the successor three months ended June 30, 2020 totaled \$42 million, an improvement of \$66 million, compared to \$108 million in the predecessor three months ended June 30, 2019
- Second quarter 2020 Total Segment EBITDA <sup>(1)</sup> of \$65 million, decreasing 42% year-over-year
  - Second quarter results reflected the impact of the coronavirus pandemic that began in mid-March and weaker volumes across the portfolio
  - A temporary manufacturing outage at Pernis negatively impacted our second quarter 2020 results by approximately \$8 million
  - Despite the YoY decline due primarily to the negative impact of COVID-19, our volumes and Segment EBITDA steadily improved sequentially each month within the quarter; July '20 volumes also increased sequentially vs. June
- Drove strong free cash flow <sup>(2)</sup> as Hexion generated \$54 million of cash in the second quarter of 2020
- Further strengthened our liquidity, which increased by nearly \$40 million compared to Q1'20, and totaled \$479 million as we continue to leverage a variety of actions taken in the quarter to prudently manage our solid balance sheet

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(2) Free cash flow is a non-GAAP financial measure and is a liquidity measure used by the Company. Free cash flow is defined by the Company as net cash provided by (used in) operating activities less capital expenditures on property, plant and equipment. Free cash flow is defined and reconciled later in this presentation.

# Hexion Benefitting from Previous Cost & Productivity Initiatives; Remains Focused on Controllable Actions

## Summary

- ***Demonstrated Ability to Safely Maintain Operations During Pandemic***
- ***Global manufacturing footprint: only Hexion's more efficient sites remain in operation today***
  - 45 manufacturing sites as of FY'19 versus 94 sites in FY'08
- ***Lean cost position***
  - Successfully implemented two significant cost reduction initiatives since Q4'17
- ***Customer, Geographic and End Market Diversification***
  - Not overly dependent on any particular end market or geographic region
  - Largest customer represented only 3% of sales in FY'19
- ***Leveraging Strategic Procurement and Supply Chain Partnerships***
  - Long-standing supplier relationships



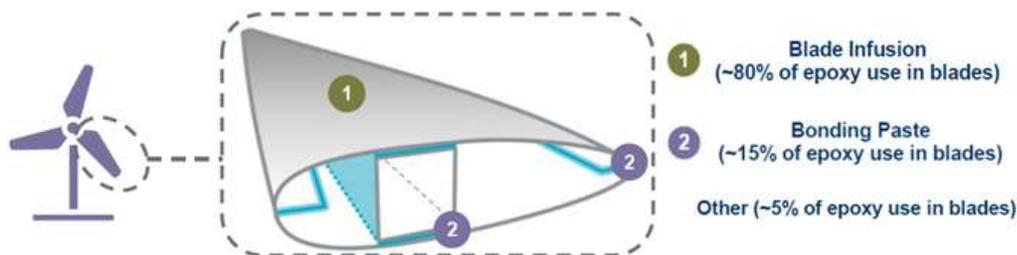
# Composites: Wind Energy Demand Remained Solid in Second Quarter 2020 Despite COVID-19

## Specialty Epoxy: Well Positioned in Wind Energy

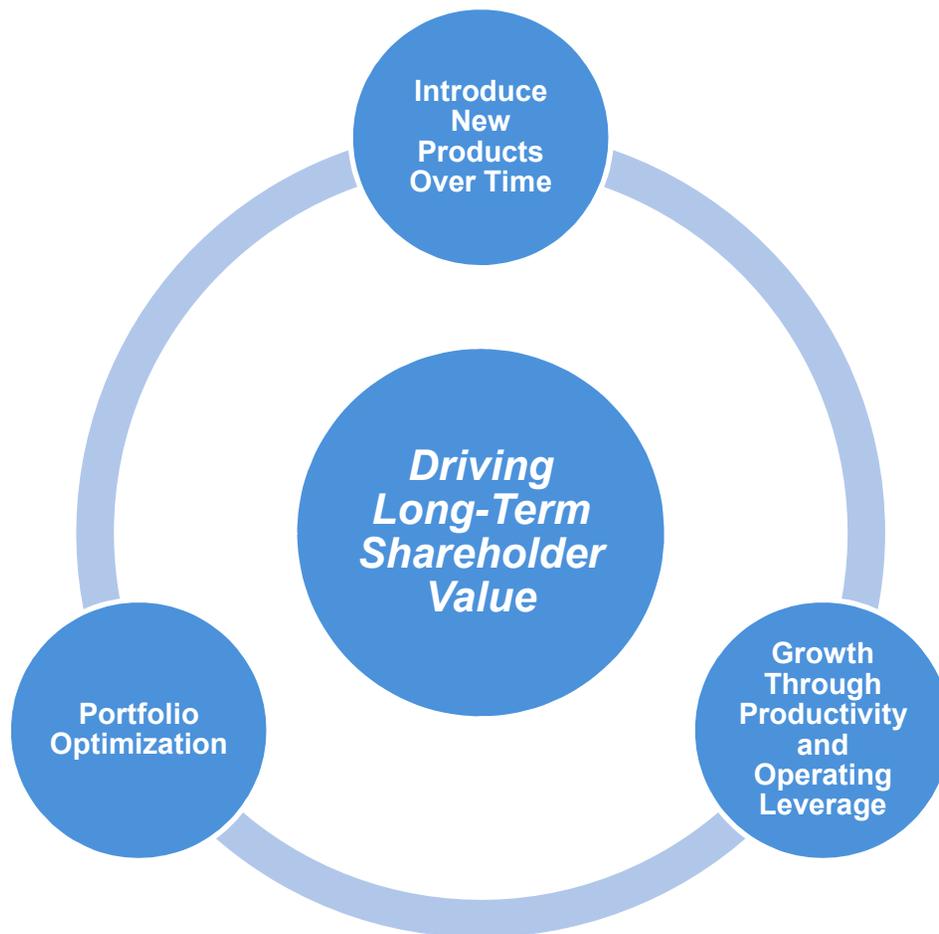
- **Leading global supplier to wind energy customers**
  - Global business for Hexion with strong presence in China
  - Wind energy installations drive demand
- **Complete solutions provider for composite systems in wind turbines**
- **Hexion is well positioned to continue to serve global wind energy customers**
- **Continue to expect long-term secular growth in renewable energy to support wind energy business**

## New Offshore Wind Energy Industry Installation

- **Hexion's latest wind energy solution used for China's first grid-connected offshore wind turbine**
  - In July '20, Hexion's proprietary materials and latest generation bonding paste used by a large Chinese wind energy customer
  - Wind turbine blades had a length of 90 meters
  - Hexion's BPR 535 bonding paste is suitable for onshore and offshore blades



# Strategic Focus Remains on Driving Long-Term Shareholder Value



## Accelerate New Product Development (NPD)

- Proven new product development: new products have driven 20% of sales from 2014 to 2019
- NPD aligned with megatrends: bonding paste for wind energy; waterborne coatings; fire-retardant resins and automotive lightweighting

## Drive Productivity and Operating Leverage

- Solid track record of effectively managing our cost base: reduced fixed costs by \$78mm (2017-2019)
- Stable fixed cost base will support future operating leverage when volumes eventually recover from COVID-19 impact
- Strategically invest in high-return projects with limited excess capacity, such as Brimbank, AU expansion

## Portfolio Optimization

- Constant assessment of Company's operating portfolio for acquisitions or divestitures

**Focused on Increasing Profitability and Free Cash Flow By Growing our Businesses from a Foundation of Attractive Products and End-Market Demand**



# Hexion Inc.

## Financial Review

**Mark Bidstrup**  
**Senior Vice President**  
**and Treasurer**

# Adhesives

## Second Quarter 2020 Segment Results



	Three Months Ended June 30		
(\$ in millions)	2019	2020	Δ
Total Revenue	\$ 517	\$ 346	(33)%
Total Segment EBITDA <sup>(1)</sup>	73	51	(30)%
Total Segment EBITDA Margin	14.1%	14.7%	60bps

Q2'20 Revenue Comparison YoY			
Volume	Price/Mix	Currency Translation	Total
(26)%	(4)%	(3)%	(33)%

### Summary

- Revenue declined primarily due to raw material price decreases contractually passed through to our customers and softer volumes from COVID-19
- Adhesive volumes improved sequentially within the quarter rebounding from April trough
- Segment EBITDA declined primarily due to lower volumes in our North American and Latin American resins businesses, as well as declines in phenolic specialty resins, partially offset by ongoing cost actions supporting improved margins

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# Coatings & Composites

## Second Quarter 2020 Segment Results



	Three Months Ended June 30		
(\$ in millions)	2019	2020	Δ
Total Revenue	\$ 375	\$ 282	(25)%
Total Segment EBITDA <sup>(1)</sup>	52	26	(50)%
Total Segment EBITDA Margin	13.9%	9.2%	(470)bps

Q2'20 Revenue Comparison YoY			
Volume	Price/Mix	Currency Translation	Total
(18)%	(5)%	(2)%	(25)%

### Summary

- Revenue declines reflected COVID-19's global economic impact
- Segment EBITDA declined primarily due to volume declines in our base epoxy and Versatic Acids™ and Derivatives businesses driven by overall weakness in the market, mainly in the automotive and construction industries, as well as the Pernis manufacturing outage
- Declines partially offset by strong demand in China and U.S. wind energy supporting our specialty epoxy business

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# Balance Sheet Update & Financial Summary



## Summary

- Liquidity of \$479 million, which includes \$292 million of unrestricted cash and cash equivalents, as of June 30, 2020
- Expect 2020 capital expenditures of ~ \$110 million to \$120 million and reviewing the timing of manufacturing turnarounds at certain sites
- Remain focused on managing net working capital (NWC)
  - Q2'20 NWC reflected primarily lower accounts receivables due to volume declines
  - Top-quartile NWC metrics
  - Expect additional structural improvement in vendor terms going forward based on new capital structure
- Q3'20 cash flow will be impacted by the timing of long-term compensation payments and international pension contributions as well as an expected increase in NWC driven by increasing volumes; we expect normal Q4'20 seasonal NWC benefit
- Expect annual interest costs of ~ \$105 million
- With no material debt maturities before 2026, Hexion benefits from a long-dated maturity schedule

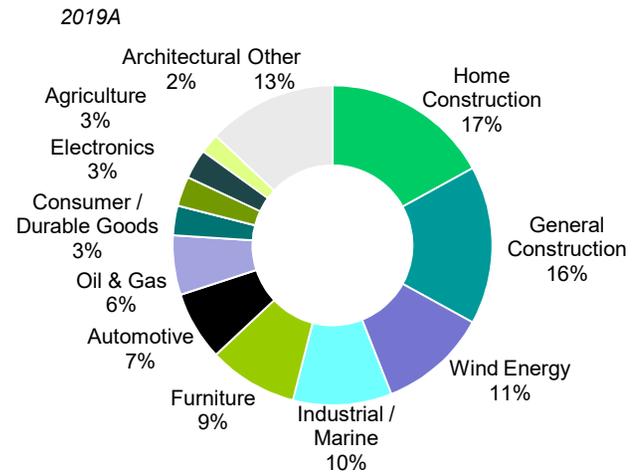
**Free Cash Flow Profile Supports Strong Liquidity**

# Summary

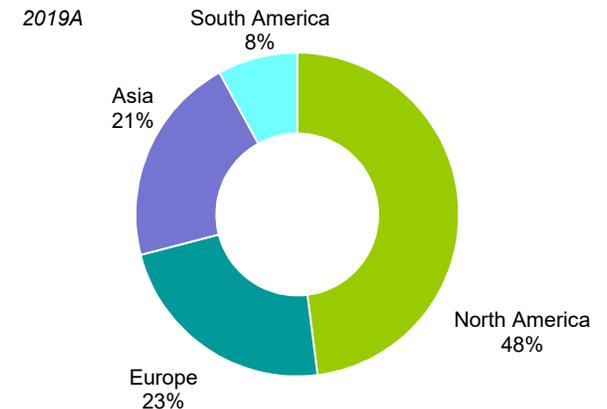


- Hexion remains focused on:
  - Associate safety, operating our plants safely and supporting the communities in which we operate, considering the ongoing Covid-19 crisis;
  - Long-term growth by leveraging its diversified end markets and global footprint
  - Aggressively manage our costs;
  - Maintain a disciplined approach to capital allocation to reduce net debt;
  - Portfolio optimization;
  - Drive to maximize long term shareholder value

**Sales by End-Market**



**Sales by Geography**



**Hexion is Well-Positioned for the Eventual Economic Recovery**

# Appendices

# Fresh Start Accounting Impact



## **Fresh Start Accounting**

Upon emerging from Chapter 11 on July 1, 2019 ("Effective Date") and qualifying for the application of fresh-start accounting, Hexion's assets and liabilities were recorded at their estimated fair values which, in some cases, were significantly different than amounts included in the Company's financial statements prior to the Effective Date. Accordingly, Hexion's financial condition and results of operations on and after the Effective Date are not directly comparable to our financial condition and results of operations prior to the Effective Date. References to "Successor" or "Successor Company" relate to the financial position and results of operations of the reorganized Company subsequent to the Effective Date. References to "Predecessor" or "Predecessor Company" refer to the financial position and results of operations of the Company on or before the Effective Date.

# Reconciliation of Net (Loss) Income to Segment EBITDA (Unaudited)



(\$ in millions)

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
<b>Reconciliation:</b>				
Net loss attributable to Hexion Inc.	\$ (42)	\$ (108)	\$ (101)	\$ (160)
Net income attributable to noncontrolling interest	—	(1)	—	(1)
Net loss	\$ (42)	(107)	(101)	\$ (159)
Income tax (benefit) expense	(11)	8	(8)	15
Interest expense, net	25	9	51	89
Depreciation and amortization <sup>(1)</sup>	56	26	114	52
EBITDA	28	(64)	56	(3)
<b>Adjustments to arrive at Segment EBITDA:</b>				
Asset impairments	\$ —	\$ —	\$ 16	\$ —
Business realignment costs <sup>(2)</sup>	18	11	39	15
Transaction costs <sup>(3)</sup>	4	3	7	26
Realized and unrealized foreign currency (gains) losses	—	(7)	6	(6)
Reorganization items, net <sup>(4)</sup>	—	156	—	156
Other non-cash items <sup>(5)</sup>	13	7	25	9
Other <sup>(6)</sup>	2	6	5	18
Total adjustments	37	176	98	218
Segment EBITDA	\$ 65	\$ 112	\$ 154	\$ 215
<b>Segment EBITDA:</b>				
Adhesives	\$ 51	\$ 73	\$ 122	\$ 149
Coatings and Composites	26	52	65	96
Corporate and Other	(12)	(13)	(33)	(30)
Total	\$ 65	\$ 112	\$ 154	\$ 215

# Reconciliation of Net (Loss) Income to Segment EBITDA (Unaudited) *Continued*



(\$ in millions)

- (1) For the three and six months ended June 30, 2020, accelerated depreciation of less than \$1 and \$2, respectively, has been included in "Depreciation and amortization."  
 (2) Business realignment costs for the three and six months ended June 30, 2020 and 2019 included:

	Successor		Predecessor	
	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Severance costs	\$ 2	\$ 7	\$ 10	\$ 9
In-process facility rationalizations	5	1	12	3
Business services implementation	8	—	12	—
Legacy environmental reserves	2	1	4	1
Other	1	2	1	2

- (3) For the Successor three and six months ended June 30, 2020, transaction costs included certain professional fees related to strategic projects. For the Predecessor three and six months ended June 30, 2019, transaction costs primarily included \$2 and \$21, respectively, of certain professional fees and other expenses related to the Company's Chapter 11 Proceedings.  
 (4) Represents incremental costs incurred directly as a result of the Company's Chapter 11 proceedings after the date of filing.  
 (5) Other non-cash items for the three and six months ended June 30, 2020 and 2019 included:

	Successor		Predecessor	
	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Fixed asset write-offs	\$ 6	\$ 2	\$ 8	\$ 3
Stock-based compensation costs	4	—	9	—
Long-term retention programs	3	4	6	5
Other	—	1	2	1

- (6) Other for the three and six months ended June 30, 2020 and 2019 included:

	Successor		Predecessor	
	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Legacy expenses	\$ 2	\$ —	\$ 5	\$ 3
IT outage costs (recoveries), net	(2)	5	(4)	10
Management fees and other	2	1	4	5

# Free Cash Flow By Quarter



(\$ in millions)

	Successor			
	Three Months Ended June 30, 2020	Three Months Ended March 31, 2020	Three Months Ended December 31, 2019	July 2, 2019 through September 30, 2019
Net cash provided by (used in) operating activities	\$ 83	\$ (102)	\$ 199	\$ 25
Capital expenditures	(29)	(32)	(36)	(22)
Free Cash Flow <sup>(1)</sup>	54	(134)	163	3

(1) Free cash flow is a liquidity measure used by the Company and is defined by the Company as net cash provided by (used in) operating activities, less capital expenditures on property, plant and equipment.

# Net Debt by Quarter



(\$ in millions)

	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Debt payable within one year	\$ 76	\$ 80	\$ 70	\$ 87
Long term debt	1,839	1,834	1,715	1,702
<b>Total Debt <sup>(1)</sup></b>	<b>\$ 1,915</b>	<b>\$ 1,914</b>	<b>\$ 1,785</b>	<b>\$ 1,789</b>
Less: Cash and cash equivalents	(295)	(250)	(254)	(108)
<b>Net Debt <sup>(2)</sup></b>	<b>\$ 1,620</b>	<b>\$ 1,664</b>	<b>\$ 1,531</b>	<b>\$ 1,681</b>

- (1) Total debt represents the sum of "Debt payable within one year" and "Long-term debt" on the Condensed Consolidated Balance Sheets. Certain components of total debt are denominated in foreign currencies.
- (2) Net debt represents "Total Debt" as defined above less "Cash and cash equivalents" on the Condensed Consolidated Balance Sheets.

