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Q4 2016 Hexion Inc. Earnings Conference Call
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C: John Kompa; Hexion Inc.; VP of IR
C: Craig Morrison; Hexion Inc.; Chairman, President, CEO
C: George Knight; Hexion Inc.; EVP, CFO

P: Tarek Hamid; J.P. Morgan; Analyst
P: Christopher Ryan; Bank of America Merrill Lynch; Analyst
P: Dionisia Sharac; Citi; Analyst
P: Sanjay Aiyar; Coherence Capital; Analyst
P: Owen Douglas; Robert W. Baird & Co.; Analyst
P: Juliano Torii; Descartes Trading; Analyst
P: Clayton Lechleiter; Imperial Capital; Investor
P: Brian Lalli; Barclays; Analyst
P: Alex Kayvanfar; Redwood Capital; Analyst
P: Ryan Bloom; the Hartford Investment Management; SVP
P: Tim Rake; El Centro; Analyst

+++ presentation
Operator^ Good day, ladies and gentlemen. Welcome to the Hexion fourth quarter and fiscal year 2016 earnings conference call.

(Operator Instructions)

As a reminder this conference is being recorded.

I would now like to introduce your host for today’s conference, Mr. John Kompa, Investor Relations of Hexion, you may begin.

John Kompa^ Thank you [Tara]. Good morning and welcome to the Hexion Fourth Quarter and Fiscal Year 2016 conference call. Leading today's call will be Craig Morrison, Chairman, President and CEO; George Knight, Executive Vice President and Chief Financial Officer and Mark Bidstrup, Senior Vice President and Treasurer.

As a reminder, this call is also being webcast and the slides referenced in today's conference call are available through the Hexion.com Web site under the Investor Relations section of Hexion. 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 read 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 forecast 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 Web site. Our earnings release and our recent SEC filings are available on the internet at Hexion.com.

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

Craig Morrison^ Thanks John. Turning to page 4, in 2016, we had two significant headwinds, one in foreign exchange and the other being the year-over-year results for oilfield. Remaining portfolio segment EBITDA grew 6% on a year-over-year basis.

We successfully completed the divestiture of two non-core assets in 2016 and recently refinanced our ABL credit facility and our senior secured notes due in 2018. Proceeds from the asset sales help support our substantial liquidity levels which totaled $511 million at year-end.

As part of our broader cost restricting, we implemented our Chief Operating Officer structure design to increase the speed of decision making and deliver additional efficiencies. We also closed our Norco, Louisiana site in mid-2016. We remained focused on achieving $25 million of in-process cost savings as of year-end 2016.

We’re beginning to see the initial signs of a modest recovery in our oilfield proppant business. These volumes have improved sequentially in the third and fourth quarters. And in our very business, there are some tightening in the Asian market in the first quarter. We will continue to focus on optimizing our diversified portfolio and deleveraging our balance sheet over time.

Turning to slide 5. You can see an overview of our fourth quarter 2016 results. Reported revenue decreased 17% year-over-year to $758 million primarily reflecting the impact of divestitures and lower selling prices from a decline in raw material costs. Adjusted for the impact of recent divestitures, revenue decreased 9% year-over-year.

Hexion posted a net loss of $97 million compared to a net loss of $11 million in the prior reflecting the impact of higher unrealized mark-to-market losses on our 2016 year end pension and other post-employment liabilities. Reported segment EBITDA decreased 5% year-over-year to $69 million primarily reflecting the impact of divestitures.

Partly offset by growth across our Forest Product division, improvements in base epoxy resins and a decrease in administrative costs. When adjusted for the impact of our recent divestitures, segment EBITDA increased 6% year-over-year. Finally, our fourth quarter and fiscal year 2016 results were in-line with our preliminary results announced in January.

Turning to slide 6. Our Fiscal Year 2016 reported revenue decreased 17% year-over-year to $3.4 billion primarily reflecting lower selling prices from a decline in raw material costs, cyclicality in oilfield proppants and the impact of divestitures. Adjusted for the impact of recent divestitures, revenue decreased 14% year-over-year.

Hexion posted a net loss of $38 million compared to a net loss of $40 million in the prior year. Our reported Segment EBITDA decreased 7% year-over-year to $433 million primarily reflecting the impact to divestitures and cyclicality in oilfield proppants, partially offset by growth in North American Forest Products and Versatic Acids & Derivatives.

When adjusted for the impact of our recent divestitures, segment EBITDA decreased 3% year-over-year. We were encouraged by trends in our oilfield proppants business as we saw a two consecutive quarters of sequential improvement of results.

Turning to slide 7. In our combined raw material index, our total raw material cost increased 4% on a sequential basis. When considering our three major raw materials, the average price for phenol is flat while methanol and urea declined 30% and 27% respectively.

Turning to slide 8. Focusing on the left side of the page, we remained confident in our ability to drive structural cost reductions and are targeting an incremental $25 million of in-process cost savings. As previously announced, the closure of our Norco site occurred in the second quarter of 2016. We're already realizing the initial benefits have achieved $13 million of incremental savings as of year-end 2016. The site closures projected to add an incremental $7 million in savings in 2017.

In addition our grid optimization efforts of our German phenolic specialty resins business and specific SG&A actions related to our new Chief Operating Officer structure are well underway. You could also see the projected splits for the balance of our in-process cost savings and the majority of the savings are expected to be achieved in 2017.

Turning to the right side of the page in our growth plans, we recently announced plans to build a new European technology center in Germany. The new center will consolidate activities from several R&D facilities and is expected to be completed in mid-2018. This facility will complement our high-tech lab dedicated to wind energy applications in Esslingen, Germany and also support our composite R&D activities.

The investment is in line with our ongoing focus of driving innovation in high margin specialty products and applications. We've intentionally located these labs close -- in close proximity to our global customers to accelerate collaboration on our new product development portfolio.

I now turn the call over to George Knight, our CFO, to further discuss our financial results. George?

George Knight^ Thank you Craig. Turning to page 10, in our Forest Products resin segment, fourth quarter 2016 revenue totaled $328 million. A 5% decline from the prior year at higher volumes of 4% and positive currency translation of 1% was offset by negative price mix of 10% primarily due to the pass through of raw material price changes.

Segment EBITDA increased by 10% and our margins improved to 17.1% due to higher segment volumes, cost efficiencies from the new North American formaldehyde facilities and improved performance in Latin America.

Turning to the next slide in our epoxy, phenolic and coating resins segment, fourth quarter 2016 revenue totaled $430 million or 24% decreased from the prior year due to a 15% impact from our divestures, a negative price mix impact of 6%, lower volume of 2% and currency translation headwinds of 1%. Adjusted for divestitures, revenue declined 11% year-over-year.

Segment EBITDA results decreased by $14 million compared to the prior year reflecting softer demand in oilfield proppants and destocking in our China wind energy business. Adjusted for divestitures, segment EBITDA declined by $6 million. Segment EBITDA margins declined slightly due to the changes in product mix.

Regarding our balance sheet, our cash plus borrowing availability on our credit facilities was $511 million at year-end. 2017 capital expenditure investments are expected to range between $100 million to $110 million down from 2016 due to the completion of our large strategic growth projects in 2016.

We continue to focus on managing our working capital. Net working capital decreased by $47 million in 2016 compared to 2015 and remains a modest 10% of sales. As Craig mentioned, we were pleased to successfully addressed our 2018 debt maturities in February of 2017. We issued $710 million of debt and the proceed will be used to repay all of our outstanding 8.875% senior secured notes. We now have no material debt maturities before 2020 and weighted average maturity of 3.7 years.

I will now turn the call back to Craig.

Craig Morrison^ Thanks George. Operator, if you could please open the lines for questions. Thank you.

+++ q-and-a
Operator^ (Operator Instructions) Tarek Hamid from J.P. Morgan.

Tarek Hamid^ On the destocking in the Chinese wind energy business, can you talk a little bit about what you think sort of drove that and if you're seeing that sort of [stabilizing] into 1Q or even sort of reverse and start to restock?

Craig Morrison^ Yes, I think it's -- essentially the blade builders built capacity and production faster than installation could occur. And the government closely monitors that and will regulate their policy. This occurred in the past as well a few years ago. So, we really think it will continue largely through the first half of 2017, that's our best projection.

So, we don't think it's -- you know we saw it in the fourth quarter, we -- we think it will happen in the first and may start to reverse itself in the second quarter but could even continue through the second quarter. The long medium -- the long-term outlook is very positive.

Obviously, China is focusing on every energy source they can get, especially clean energy. So, we considered it to be a very overall positive environment but this is purely them using their leverage that they have available for them to scale back the blade production and that's what we're seeing right now.

Tarek Hamid^ Got it. Are there any changes under the sort of competitive dynamic in terms of -- in terms of other competitive products coming in to compete with your epoxies?

Craig Morrison^ No, we don't -- I mean there's always the normal dynamics that we have but it's largely within the epoxy arena and that's been for years that has existed and we had to deal with that and we'll continue to deal with it. We think we had the leading technology in the world. We know we have the leading technology in the world.

And so, we continue to innovate, we continue to provide new products offered to our customer. We also feel we have the best tech service capability which in that industry is very, very important but it's largely the competition we're seeing is coming from the epoxy arena.

Tarek Hamid^ Got it and last one for me just on -- you talked a little bit about base epoxies and Asia tightening up with raw material inflation. Could you talk a little bit more about sort of what the [specific] drivers are there?

Craig Morrison^ Yes, the biggest is phenol and then BPA as well are increasing price-wise. And the Asian producers had gotten so aggressive on price to gain share outside of Asia that they even reach the limit where I don't think it's attractive for them. So, we're seeing some adjustment in their production, excuse me, as well as -- sorry, I just had to take a sip of water, as well as scheduled and potentially unscheduled maintenance for turnaround of plants.

So, we are seeing in the first quarter an opportunity for increased share, pricing, things of that nature. We plan to take full advantage of that but you will largely see that benefit in the second quarter because it just takes a certain amount of time to take effect. We'll see some of it in March but it should take largely affect in the second quarter.

Tarek Hamid^ Got it. Your voice sounds as almost as bad as mine and mine got three days in Miami this week, so I apologize.

(Multiple Speakers)

Craig Morrison^ Yes. Sorry about that, I apologize.

Tarek Hamid^ No worries, I'll pop back in the queue, thanks.

Operator^ Roger Spitz from Bank of America.

Christopher Ryan^ Hi, yes, it's Chris Ryan on for Roger, thanks for taking my questions. The first question, did Q4 '16 raw material margins and specialty epoxy escalated the destocking and then Versatic Acids get squeezed on the higher [oil] levels?

Craig Morrison^ No, Versatic Acid is held up well. We have seen some effect on the specialty epoxy side but the Versatic Acid has held up well.

Christopher Ryan^ Okay and how the [spreads] in both of your businesses look [as far as] quarter on the spike in benzene and propylene in the study ramp-up and the methanol prices as well?

Craig Morrison^ Yes, we don't really give forward-looking projections relative to that -- yes, we had seen some impact with the rising prices. You know as you know about 50% to 60% of our business we have contracts where we can pass on changes to raw material prices to our customers but you normally have a lead-lag impact until you catch up. So you know, that's what we're seeing in Q1.

Christopher Ryan^ Okay, thank you. And did 2016 proppants EBITDA come out at the negative $26 million you expect in the roadshow and did 2016 base epoxy resin EBITDA come out of the $7 million you expect from the roadshow?

Craig Morrison^ Yes, generally what we had projected is what's occurred.

Christopher Ryan^ Got it, thank you, that's all my questions.

Craig Morrison^ Thank you.

Operator^ Thank you and our next question comes from the line of James Finnerty from Citi. Your line is open.

Dionisia Sharac^ Hi, this is [Dionisia Sharac] on for James. We just had two quick questions. First, does Apollo own any Hexion [stocks] today and have their holdings [change]?

Craig Morrison^ We're not sure -- we can't speak for what Apollo owns.

Dionisia Sharac^ Okay. And then would you be able to update us on your restricted [spent] basket?

Craig Morrison^ Yes, we normally -- we're not in a position to do that today. You know, it is very minimal though because we're not meeting the fixed charge coverage ratio at this point in time. So, we just have the general basket available to us and we don't have the builder available to us.

Dionisia Sharac^ Okay. That's it right now, we'll pop back in. Thank you.

Craig Morrison^ Yes.

Operator^ Sanjay Aiyar from Coherence Capital.

Sanjay Aiyar^ Hi, thanks for taking the question. Pretty much all of my questions had been answered already but I want to get into a little more detail about the proppant side of business. You said you did hit that roughly negative 26 million but you did say there were incremental benefits. How is that trending, is there some way you can kind of give us a quantifiable way to model this out, and kind of how do you see 2017 playing out?

Craig Morrison^ Well, I think we looked at our resin-coated proppants, there are reports out there, there are third-party reports, not ours, which talked about year-over-year volumes growing 20% to 30% range, which we think would be a fair estimate. We are still seeing margin pressure largely driven by the fact that [raws] are going up.

We're seeing a little relief in terms of getting a little bit of price but there's still the challenge of uncoated sand increasing as there's significant demand for that. So, I'd say we're seeing some recovery of the market in terms of volume and drilling but it's still a fairly price sensitive market which is keeping pressure on the margins.

Sanjay Aiyar^ Okay, so to follow up with that, I mean how do you think about kind of the specialty resins coming back into play and then seeing more demand. Is there kind of an oil price that guys are waiting for so they can move back into that or -- what's the trigger there for them to get involve?

Craig Morrison^ Well it is -- it is -- correlates to price in a sense that different reserves will be tapped in different regions when you look at basins because they've become economically viable and different basins require resin-coated proppants more than others. So in that sense as it improves and it’s not a [step] function change at one inflection point, it’s more of a natural increase as you march up the curve. So you know as you would go above 60, I think you’d see continued increase because the economics will improve.

And even some of the ones that are using uncoated sand now, there’s definitely benefit to RCP but it’s purely a short-term cash focus. So, I would say it’s a gradual improvement as you mark up the curve -- march up the curve. Obviously if you’re seeing growth of 20% to 30%, you’re seeing some of that already as it improved from the 40s into the 50s and will continue to do that as it moves into the 60s but it’s not like there’s one inflection point.

Operator^ Owen Douglas from Baird.

Owen Douglas^ So, I really just want to kind of start by asking a little bit in terms of you kind of in the past has mentioned Brazil as being one of the [drags] on that Forest resins business. Can you give me an update as to how that’s looking now?

Craig Morrison^ Yes, I mean as you know Brazil had gone through a very difficult recession, probably the steepest recession they ever had. And there was no doubt we felt that but actually when you look at our year-over-year results, they’re double digit positive as I think the team has done an excellent job managing that. Additionally, Forest products down there, that’s that fastest growing forestry region in the world.

So, it’s well-positioned both for its internal market as well as for its external market. So, we think we’re on the other side of a challenging period of time for them and we think they will have very, very positive growth coming for the next few years.

Owen Douglas^ Okay and so to that facility which you guys built down there, how is that looking as far as getting into the point of actually being an EBITDA contributor? I remember that wasn’t -- that you mentioned in the past the volumes were appearing to be lighter than you expected.

Craig Morrison^ Yes, I still think as we’ve stated in the past that’s really going to be a 2018 event before. A lot of my comment I was just making is really on the Forest Products Resin side which obviously uses formaldehyde. But we have enough capacity. We think without that facility in 2017, and we think that will start to contribute in 2018.

Owen Douglas^ Okay. That’s helpful there. And the [divest] of businesses, roughly how much working capital do those businesses consume?

George Knight^ Yes. It uses approximately 30 million -- 30 million to 40 million.

Operator^ Juliano Torii from Descartes Trading.

Juliano Torii^ Hi. Well, thanks for taking my question. First question is -- I guess, [done] speaking, I'm trying understand why do you see a [peak] cash flows flexion point after interest? So, how do you see your business realignment cost this year it will be?

George Knight^ Yes. We expect to have a fair amount of restructuring cost still in 2017 related to the Norco closure that we get into 2016 in the Germany manufacturing rationalization that we're in the process -- we're thinking that those costs should be in the $40-million to $50-million range during the 2017.

Juliano Torii^ Okay. And does that include the cost for the new R&D facility? How should I think of that cost?

George Knight^ Yes. Those costs would be included in our CapEx amount. So, we talked about our CapEx this year being between $100 million and $110 million. So, cost related to the new R&D facility would be included in there.

Operator^ Clayton Lechleiter from Imperial Capital.

Clayton Lechleiter^ Hey, thanks for taking my call. Just to hammer down a little bit more on the proppants business, I think previously you said that there might be kind of warrant two quarters of kind of the lag when you sort -- start to see pricing rebound after sort of in this volume growth. I think you mentioned kind of 20% to 30%. I guess to that point -- is that still the way that you sort of look at this business? And also, has there been any structural change in the [E&P] space such that as the new basins come online that require the RCP product that you wouldn't be able to get back to the kind of margins that you were at and sort of peak levels?

George Knight^ Yes. I mean, it was -- the number of questions there. I mean, the challenge always with oil field obviously is you can find a range of forecast that will give you significantly different outlooks and that's I think an acknowledgment that it's very challenging to truly project this market. You know, when you look at actual inventories for instance in the United States, they're continuing to build in 2017 and it wasn't until the most recent, literally 30 days or so, that the supply has dropped below demand.

In other words, demand has actually outgrown supply. So, you might start to see for the first time inventories for instance in the U.S. come down. The other factors you have are obviously the international factors. The agreement with OPAC comes off in June, for instance. So, that's why you hear people sort of hedge a little bit about exactly what it's going to happen in a given quarter and how fast you'll see a rebound in price and, therefore, a rebound with the fields improving and coming on stream and stuff.

We do think we're well positioned to participate when it comes online. We're very strong for instance, Canada, South Texas, et cetera but it is difficult to project for the reasons I just mentioned.

Clayton Lechleiter^ Okay. Thanks. And I guess just to follow up, so, you don't really see any sort of structural change in, you know, kind of domestic, you know, in the domestic in key space to that. You talked about some of these basins and the different economics to these basins and what do they use, the raw [sander] or resin-coated sand. Do you -- is there any reason to suspect that there's something from sort of structural change in the way that these wells are drilled, that you wouldn't be able to get back to the sort of margins that you had to kind of peak levels?

George Knight^ Well, I think when you look at the actual usage of product, there's no doubt that in a cash-constrained environment, they have shifted more to raw sand and we believe that as the economics of the wells improved, that we'll be well positioned to participate and that, in fact, it will be a shift back to resin-coated proppant because we really do believe that there is a significant increase in how fast you can draw from the well, as well as the total production of the well up to 40%.

So, we think we're well positioned to participate in that. What do you get exactly back to peak margins? You know, you'll have to wait and see what the dynamics of the industry play out, but certainly we think will be significantly improve margins from where we stand today.

Operator^ Brian Lalli from Barclays.

Brian Lalli^ Hey, good morning, guys.

George Knight^ Good morning.

Craig Morrison^ Hey, Brian.

Brian Lalli^ Mostly my questions have been asked. So, I'll just ask you a couple of quick housekeeping items. Maybe first on the raw material side, it is showing 570s obviously peaked up a bit, maybe this is an unfair assumption, but if we assumed raws are [main] study from here and we obviously appreciate they'll be focusing on getting pricing to mitigate the increases. But is there any way to quantify what that headwind might represent in 2017 over 2016 if obviously an isolation of pricing and volume increases?

George Knight^ Yes, no. That's kind of tough at this point, Brian, just because we don't have visibility of how things are going to develop from throughout the rest of the year.

Brian Lalli^ Is there an amount that 2016 was up over 2015? Again, as the prices were -- excuse me -- as the raws were flowing in?

George Knight^ Yes. I mean, the -- we can get a small benefit in 2016 versus 2015. I think the big benefit really happened in 2015 where you saw that the big drop in raw material prices but we did have a slight benefit in 2016.

Brian Lalli^ Okay. Directionally though, it would be safe to assume that it would be somewhat of a headwind versus 2016 --

(Multiple Speakers)

George Knight^ That's correct.

Brian Lalli^ -- but it would -- okay. All right.

George Knight^ Yes. We've already seen that first quarter and we expect that within the year.

Brian Lalli^ I just want to make sure directionally, I was thinking about the [raw], and then George maybe just one -- quick one on just some of the cash flow items. You obviously just mentioned the $40 million to $50 million are restructuring. If it's possible, could you maybe outline for us what other may be small items we might look to modeling things that you traditionally -- I'm sure mentioned in a 10-K filing attention cash taxes kind of other odds and ends that we should make sure we factor into our cash flow statements? That'd be great.

George Knight^ Yes. I mean, I think from a tax standpoint, we continue to benefit from the NOLs in the U.S. We expect our taxes to be a little bit higher this year. We've got some gains related to some of the sales we did internationally. So, historically, where it's been 20 to 25 this year, will probably be 25 to 30. On the tax side, pensions and other things, environmental probably in the $20-million range, networking capital.

We did see a slight benefit in 2016. I think based on what we see, wind energy picking up in the second half of the year that that probably see a slight increase in working capital during the 2016 -- I mean, in 2017.

Operator^ Alex Kayvanfar from Redwood.

Alex Kayvanfar^ Hey, good morning. Thanks for taking the question. Just a quick on Forest Products, was that segment of last four or six years? It looks like volumes have been pretty close to flat on a cumulative basis as well of -- it had the tailwind from the housing market. What's been driving that? Has there been share lost or what else kind of explain to that result?

George Knight^ Yes. I mean, there clearly has been some lost to pMDI as a competing technology, as far as our traditional resins of phenolic and amino-based resins. There's not been any share lost and factors have been share gains. And overall, I also have [meet] -- we've been focusing on margins. So, if you're looking at data and you can see other margins have improved over time, clearly that has been very much a focus for us. I do think we have some new projects that we're focusing on which will expand the overall market for us. But we're not really ready to get into that yet.

Alex Kayvanfar^ And as pMDI still a further headwind or is that kind played out at this point?

George Knight^ It's largely played out but there are areas that they can nimble at and its share and have taken share and we have projects to combat that. So, one that's one of the main projects that we have but that potential upside going forward.

Operator^ Ryan Bloom from the Hartford.

Ryan Bloom^ I kind of want to go back to your earlier comments and understand which - will base epoxys, the tightening that you see outweigh the drag that you're envisioning from the specialty epoxys?

George Knight^ Yes. I mean, I'll be honest with you. Base epoxys always a tough one to predict because it can spike, and when it spikes, it can have a very, very significant positive impact or conversely can fall off fairly quickly. It's a little more difficult to project in terms of a longer-term is that one quarter, two quarter, four quarters, six quarters et cetera. So, that's one point.

Right now, we can't say that would be a fact but it certainly could develop that way depending on what we see exactly playing out over the next 60 to 90 days then beyond. But I couldn't sit right now and say we have enough visibility to make that statement. No.

Ryan Bloom^ Okay. Great. And then the other item, would the deep -- I guess some -- because we think about the operational deleveraging that you would get from -- on lower [potential] -- utilization during the destocking period on the specialty side?

George Knight^ That's not usually the major factor for us. It's much more around margin compression relative to raw materials and price and just volume, but it's not really a huge hang-over cost. These are not big plants. They're relatively small and they produced very high margin product.

Ryan Bloom^ Okay. And I guess on that issue, so we're going to see some volume declines but would you expect price pressure in ensuing margin declines? I think as you're suggesting now or that's to be determined?

George Knight^ I think you'll see a price pressure in that market as the overall market comes under pressure.

Ryan Bloom^ Okay. Thank you.

Operator^ [Tim Rake] from [El Centro].

Tim Rake^ Hi, [Tim Rake]. Thanks for taking the questions. On the raw material environment, I just want to follow on Brian's question. As we think about sort of modeling this going forward, can you manage to sort of -- you mentioned that 50% to 60% of contracts have [pass throughs] -- should we think about that on like a three-month lag? Or how long should we think about that? And I guess do those contracts involve most of the businesses or like the proppants we called out as one business or maybe that doesn't exist that probably isn't a pass through?

George Knight^ You should think of it about 30- to 45-day lead lag effect. That's not three months. It's disproportionately weighted towards [parse] products, not that we don't have contracts to elsewhere, but generally, you're not going to see it as prevalent in an oil field type business or some our businesses. It really is a -- in some cases, a subsegment by subsegment but are far as product is heavily weighted towards contractual.

Tim Rake^ Okay. And then just the second question is just intuitively on trying to think really -- [you've been] on working capital use or potentially working capital use that ties into sort of spike in raw materials that we've seen in the first quarter, is that maybe one of the biggest drivers or --

George Knight^ Yes. I mean, when you think about just seasonality though too, normally in the first quarter, we do have a big working capital built just as volume picked up from Q4 and then that normally evens out over the year. So, for a full year basis, we expect to see the same type of seasonality build in the first half of the year and it's coming back in a source of cash in the second half, but because of some of the picked up in the fourth quarter of 2017, we expect to have an overall usage of working capital in 2017.

Operator^ Thank you. At this time, I'm showing no further questions in the queue. I would like to turn the call back over to Craig Morrison for closing remarks.

Craig Morrison^ I'd like thank everybody for their participation today and we will look forward to updating on the next quarterly call. Thank you very much.

Operator^ Ladies and gentlemen, thank you for your participation on today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.