Hexion Inc. Q3 2017 Earnings
November 14, 2017

Corporate Speakers

- John Kompa; Hexion Inc.; VP of Investor Relations & Public Affairs
- Craig Rogerson; Hexion Inc.; Chairman, President and CEO
- George Knight; Hexion Inc.; EVP and CFO
- Joseph Bevilaqua; Hexion Inc.; COO

Participants

- Nathan Schubert; JPMorgan; Analyst
- Roger Spitz; BofA Merrill Lynch; Analyst
- James Finnerty; Citigroup Inc.; Analyst
- Brian Lalli; Barclays PLC; Analyst
- Richard Kus; Jefferies LLC; Analyst
- Hart Anand; Opel; Analyst
- Sameer Bhalla; DDJ Capital Management; Analyst

PRESENTATION

Operator^ Good day, ladies and gentlemen, and welcome to Hexion's Third Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to turn the conference over to John Kompa, Investor Relations for Hexion. You may begin.

John Kompa^ Thank you, Nicole. Good morning, and welcome to the Hexion Inc. Third Quarter 2017 Conference Call. Leading today's call will be Craig Rogerson, Chairman, President and CEO; George Knight, Executive Vice President and Chief Financial Officer; Joseph Bevilaqua, Chief Operating 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 website under the Investor Relations section of Hexion Inc. 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 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 risks, 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 available on the Internet at hexion.com.

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

Craig Rogerson^ Thanks, John. Good morning, everyone, and thanks for joining our call today. After my first quarter at Hexion, I want to underscore that I'm as optimistic as ever about our long-term earnings potential based on our diverse specialty portfolio, strong customer relationships and global manufacturing footprint.

Turning to our latest results. We drove revenue and volume gains of 12% and 9%, respectively, compared to the prior year. We posted a net loss of $70 million compared to a net loss of $47 million in the prior year. Adjusting for the hurricane impact, which primarily impacted our Deer Park site, segment EBITDA totaled $102 million in the third quarter or a 9% decrease year-over-year. Our Deer Park site has since returned normal operations, and our manufacturing team did a tremendous job of bringing the site back up safely and quickly.

Offsetting our top line growth, we experienced headwinds from the destocking and competitive pressure impacting our specialty epoxy business due to softness in the global wind energy market. This was partially offset by continued gains in our North American Forest Product resins and formaldehyde businesses and the continued cyclical recovery of our oilfield proppants and base epoxy resins businesses.

Following comprehensive review and in an effort to further streamline our cost structure, we've identified $40 million in new structural savings which we expect to achieve over the next 12 to 18 months. We expect to redeploy portions of our cost savings into our strategic growth initiatives, such as our recently completed Edmonton R&D expansion and additional waterborne coatings capacity.

Reflecting our leading market position, our new North American formaldehyde plants continued to perform well and contributed to our year-over-year gains in our Forest Products resins segment. These new facilities contributed $4 million of segment EBITDA in the third quarter of 2017 and $17 million over the last 12 months. We anticipate that all three sites will deliver approximately $30 million to $35 million in run rate segment EBITDA over the next few years, representing additional earnings growth.

Now turning to Slide 5 in our combined raw material index. Our total raw material costs decreased 2% on a sequential basis, but when considering our three major raw materials on a year-over-year basis, the average price for phenol, methanol and urea increased in the first nine months of 2017 compared to the first nine months of 2016 by 16%, 56% and 2%, respectively. Methanol to olefins demand and supply interruptions throughout the year drove volatility in our 2017 methanol pricing. We expect raw material prices to stabilize the remainder of 2017 and into 2018 following the large increases in the first nine months of this year.

Turning to Slide 6, I'd highlight the trends in a few of our key businesses. In our base epoxy resins, we saw strong gains in profitability driven by cost controls, gradually improving demand and volume increases of approximately 29% year-over-year. Industry fundamentals remained generally positive in the third quarter.

In the upper right-hand side of the slide, you can see the continued growth in our formaldehyde business. Our new formaldehyde plants continue to run well and our third quarter volumes increased approximately 8%, delivering incremental $4 million in the quarter.

Turning to our oilfield proppants businesses -- or business. We continue to benefit from our market-leading position and proprietary technology. Over time, we remain well positioned to take advantage of the cyclical recovery in oil and natural gas markets as evidenced by a 20% increase in resin-coated proppant volumes in the third quarter compared to the prior year. We also drove improved profitability year-over-year and sequentially.

Finally, we continue to see strong growth in our waterborne and coatings business. Our next-gen epoxy waterborne system offers coating performance comparable to solvent-borne systems and is designed to meet changing regulations that call for lower emissions on coatings used on shipping containers. This is especially the case now in China.

We successfully brought on additional capacity in August and remain on track for a strong full year 2017 performance. We'll also be adding capacity in addition, again, in January to support the continued growth expected in 2018 and beyond.

Turning to Slide 7. You can see we continue to aggressively reduce our cost structure wherever possible. We're now focused on achieving $54 million of targeted in-process structural cost savings. To recap, we fully achieved the structural cost savings associated with the closure of our Norco site. Our remaining savings are linked to an additional global SG&A and our manufacturing optimization efforts in our phenolic specialty resins business.

We also recently announced that we successfully completed strategic expansion of our technology center at Edmonton. The expanded lab is designed to improve velocity and commercializing new adhesives solutions as we focus on emerging phenolic resin technology that replaces phenol with bio-based raw materials and in developing new resin formulations designed specifically for the oriented strand board market.

I opened the call today stressing the long-term earnings potential of our portfolio, and I wanted to highlight just a few of our products. First, our Versatic Acids and Derivatives, Base Epoxy Resins and Forest Products businesses continue to exhibit strong growth through the first nine months of this year. Looking ahead, we see significant upside from long-term growth in wind epoxy, waterborne epoxy and automotive applications where we have leading positions. We also expect our Forest Products business to continue to grow based on the continued recovery in the residential construction market.

Finally, we continue to leverage our strategic growth capital investments and are already achieving our targeted return on investment from our new North American formaldehyde plants as they had delivered $17 million in segment EBITDA over the last 12 months. We also continue to invest in our specialty portfolio to address key mega trends, such as auto light-weighting and next-generation waterborne epoxies.

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

George Knight^ Thank you, Craig. Turning to Page 9. And in our Forest Products Resins segment, third quarter 2017 revenue totaled $386 million, a 13% increase from the prior year, reflecting higher volumes of 3% and positive price mix of 9% and favorable currency translation of 1%. Segment EBITDA increased by 2% due to higher segment volumes, cost efficiencies from the new formaldehyde facilities and continued strength in our North American resins business.

Turning to the next slide. In our Epoxy, Phenolic and Coating Resins segment, third quarter 2017 revenue totaled $528 million or an 11% increase from the prior year, reflecting volume gains of 7%, positive price mix of 2% and favorable currency translation of 2%.

Segment EBITDA results decreased by $19 million compared to the prior year, reflecting a $6 million negative hurricane impact; destocking and competitive pressures in specialty epoxy resins, primarily from our global wind energy business; improved oilfield proppants and base epoxy resin results; as well as strong growth in our waterborne coatings volumes partially offset the decline.

Regarding our balance sheet, our cash plus borrowing availability under our credit facilities was $310 million at the end of the third quarter, reflecting a normal seasonal working capital build. We invested $86 million in capital expenditures in the first nine months of 2017 and continue to expect to invest between $100 million to $110 million for the full year. We continue to focus on appropriately managing our working capital going forward. We would expect net working capital benefit from seasonality in the fourth quarter of 2017. While net working capital reflected higher volumes in the first nine months of 2017, it remains a modest 14% of sales.

I'll now turn the call back to Craig.

Craig Rogerson^ Thanks, George. In summary, we're pleased by our strong revenue and volume gains in the third quarter. The majority of our portfolio performed well, and our new cost-reduction initiatives and targeted strategic investments will support our long-term growth. We remain focused on leveraging our diverse specialty portfolio, strong customer relationships and global manufacturing footprint going forward.

Operator, that concludes the prepared remarks. We'd like to now open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Nathan Schubert of JPMorgan.

Nathan Schubert^ First, can you just talk about how we should think about wind energy in the fourth quarter relative to last year? I mean, should we expect a positive year-over-year comp? And if so, could you kind of quantify it?

Craig Rogerson^ Let me make a broad comment. I think that, generally, the view -- our view is that we'll see, in our specialty epoxy segment, an improvement year-over-year. Part of that is, tentatively, no further erosion in wind. So there may be some slight uptick versus the fourth quarter of last year, but generally, the view that I had last -- I had reported on last quarter that it's going to bottom out still seems to be holding. It's not better, but it's not worse. But the improvement in the EPS will be driven by versus -- certainly versus prior year fourth quarter improvement in growth in our waterborne coatings segment, again primarily in China at this point.

So EPS year-over-year should be better or will be better. But wind is a small component of that improvement, I would expect, if you look at it generally.

Nathan Schubert^ All right. And then my next question is kind of around core versus noncore businesses. What's your strategic advantage in oilfield proppants? And how is that attributable to internal operating efficiencies, like scale, integration, et cetera, versus what could be realized as sort of a stand-alone operation?

Craig Rogerson^ Well, we've got some unique technology in -- both in product and in, potentially, the process. So as the leader in coated sand proppants, I think that there are some clear advantages that we have. The disadvantage that we have from a cost perspective is we're not backward-integrated in sand. And so as we look at innovative solutions going forward, it's taking that reality into account. And so we really have got to stress our process and our product technology knowledge to differentiate ourselves going forward.

We've seen some value of that in some of the improvement we've seen this year. But again, we expect to continue to drive improvements in margin and absolute profitability in that business going forward. But we will have a cost differentiate -- negative cost differential versus those that are backward-integrated, and so we really have to focus on our technology.

Nathan Schubert^ Do you know what that cost differential is or roughly?

Craig Rogerson^ Jody, maybe you're better to answer that. I'd probably give the wrong number.

Joseph Bevilaqua^ It really comes down to what their transfer price is internally. But clearly, there's a premium for most sands going into oilfield at this point, and that we're paying market price for those sands.

Operator^ Our next question comes from the line of Roger Spitz of Bank of America Merrill Lynch.

Roger Spitz^ Back on specialty epoxies, can you provide any information on the EBITDA headwind on a year-over-year basis in that subsegment and/or what the specialty epoxy volume movement in Q3 was on a year-over-year basis?

George Knight^ Can you repeat the question --

Craig Rogerson^ We don't typically break it out, but George, maybe you can comment just generally.

George Knight^ Yes. I mean I think if you look at our miss versus last year in the quarter, that was primarily related to our specialty epoxies there.

Roger Spitz^ Right. In formaldehyde and forest products, how much of a benefit in the EBITDA was due to the positive lead lag? And do you expect that to fall away, that benefit in Q4 of 2017?

Craig Rogerson^ George?

George Knight^ Yes. Can you just repeat that, Roger? I'm sorry.

Roger Spitz^ Yes. In the slides, it mentioned that you benefited from a positive lead lag in the quarter, and it talked -- it spoke about revenues. I'm guessing it might have also benefited your EBITDA in the quarter. And I'm wondering if you could give us a sense maybe of how much of that would be. And secondly, would that benefit an EBITDA fall away in Q4 as the lead lag presumably catches up in Q4?

George Knight^ Yes. Actually, what we saw in the third quarter was more of a catch-up to what we experienced earlier in the year, where it was negative. So we did get some of that back in the third quarter. Going forward, we expect continued volatility on the raw material pricing. So we don't think there's going to be a big impact of what we saw in the third quarter because third quarter was more of a catch-up to what we saw earlier in the year.

Roger Spitz^ Okay. In that segment, in Q3, you benefited $4 million from the three new formaldehyde facilities. Presumably without it, your EBITDA would've been down on a year-over-year basis, if that is the right way to look at it. Can you comment on what the drivers of that would've been without the $3 million to $4 million from the three facilities?

George Knight^ Yes. I mean, we're seeing increased volumes in North America that were really picking up with the additional capacity that we have in our new plants there. Our European formaldehyde business, we saw some -- we're impacted slightly by some operational issues in the quarter. So that negatively impacted us. There was a small hurricane impact to our formaldehyde business and some of our customers weren't able to take product as we would've expected in the quarter.

Roger Spitz^ Okay. And last one for me is it looks like, on a reported working capital basis, last Q4, you had a $200 million release of working capital, more or less. Do you expect a similar release? Or can you frame what kind of release we might expect?

George Knight^ Yes, no, we won't see as big a benefit as we saw last year. I think year-to-date, we've used about $180 million of working capital. We would expect the pickup to be about half that in the fourth quarter.

Operator^ Our next question comes from the line of James Finnerty of Citi.

James Finnerty^ Just on the epoxy segment, you had the impact in the quarter of $6 million. Will there be any impact in the fourth quarter?

Craig Rogerson^ Don't believe so. We're up and running now and some of the impacts stretched a little bit longer relative to the logistical side. But as we get into the fourth quarter, we should be in pretty good shape. George, do you have anything to add?

George Knight^ Yes, no, that's right, Craig, nothing to add.

James Finnerty^ Okay. And then just a bigger picture question. Has there been any shutdown of capacity in the epoxy chain in China that you're aware of, whether it be [backloading to] -- back (inaudible) chlorine or in the middle of a chain and downstream?

Craig Rogerson^ Jody, do you have anything?

Joseph Bevilaqua^ Yes. We continue to monitor, and it's back to the nonintegrated players. And we have seen some shutdowns or mothballings on the nonintegrated side, we’ve not seeing anything that we -- that comes to mind on the integrated side. But there continues to be outages downstream.

James Finnerty^ Okay. So sort of at the same tone that we've heard from various chemical chains, where there's some shutdowns happening due to environmental regulations being sort of adhered to more strictly.

Joseph Bevilaqua^ It's a combination of that as well as just the softness in the market, the combination of the two.

James Finnerty^ Okay. And then on the cost savings, the new cost savings that you've highlighted, I don't know if you mentioned this. Is there a cash cost associated with those to achieve?

George Knight^ Yes. The cash cost will be approximately $30 million. The majority of that will be in 2018.

James Finnerty^ 2018, okay. And just lastly, on proppants and base epoxy, you mentioned improved EBITDA in both of those. Can you give us an idea of the magnitude as -- it was proppants positive EBITDA contributor in the quarter? And just in base, just sort of any kind of idea of magnitude in terms of improvement.

George Knight^ Yes. Oilfield and our proppants were better from a volume standpoint year-on-year. We did have a fire at our Brady facility that negatively impacted our results in the third quarter. So we did not see positive EBITDA but a nice improvement year-on-year, both from a volume and EBITDA standpoint.

James Finnerty^ And the fire, would that be something that would -- you woulod receive insurance proceeds for? Or is that -- it’s not (inaudible - microphone inaccessible).

George Knight^ No, it wasn't -- it negatively impacted us by a couple of million dollars. So it was below our deductibles.

James Finnerty^ Okay. And then on the base epoxy, you mentioned improved earnings there as well. Is there any sort of gauging the magnitude improvement relative to say 2016?

George Knight^ Yes. Again, I mean our base epoxies, we're seeing better margins there. From order of magnitude standpoint, it was up probably double from a small number in 2016.

James Finnerty^ Great. And I guess last one. On Slide 6, you showed base epoxy volume up 29% year-over-year. What was the driver for that? It seems like a large gain.

Craig Rogerson^ It's both in precursors as well as major resins. So we're seeing a better major resin demand than we have been, basically based on some of the discussions we just had around China, the availability of materials. And our precursor business has been very good with a bit of that volume going into such places as polycarbonate and other BPA uses.

Operator^ Our next question comes from the line of Brian Lalli of Barclays.

Brian Lalli^ If I could follow up on maybe a couple of James' questions. I know that you, on the base epoxy side, announced some pricing actions following the hurricane. Given your comments of no additional 4Q impact, are we to assume that you've been -- I guess or the assumption is you'll be successful in getting those prices through to combat some of the raw material headwinds? Or will that be something you'd quantify sort of separately from the hurricane impact? I'm basically getting to, are there sort of notable moves in 4Q on the margin side, given some of the raw material slights that we saw after the hurricane?

Craig Rogerson^ The hurricane impact that I was referring to was on the cost side. So when we talked about $6 million impact in the third quarter, don't expect any negative impacts to flow into Q4. The positive impacts relative to pricing on some of the materials that are tight because of that and other regions weren't in my comments.

Jody, maybe you could comment on the price increases in some of the areas at BERI.

Joseph Bevilaqua^ Yes. We believe there is opportunity in the pricing side. And we believe that the majority of the price increases announced to this point will hold, and we believe there's -- could be strong influence into the first quarter.

Brian Lalli^ Understood. But is it fair to assume that there could be some, again, transitory negative impact in 4Q as it relates to just the timing of those? Is that fair for modeling it that way?

Joseph Bevilaqua^ Probably not to that degree, no. I mean, it's back to the inventory adjustments, and we were able to come back online. From a reliability standpoint, our plants are -- both in Europe as well as U.S., are operating at high record levels. So we've been able to regain inventory, and we don't believe we're going to have any kind of adjustments or catch-ups based on those outages. And George said that's why, overall, the team handled it very well, and there was very low impact, considering the magnitude of the hurricane.

Brian Lalli^ Got it. Okay, cool. Second question, just on the new $40 million cost saving programs. I think you had mentioned that the previous $14 million related to kind of global SG&A. It looks like a big amount of the $40 million relates to kind of manufacturing costs. Is it possible to maybe break down some of that for us? Just to understand whether, over the next 12 to 18 months, we'll see some of that impact. And I apologize if I missed that comment.

Joseph Bevilaqua^ Yes. It's not manufacturing per se. A lot of it's around support, both on the SG&A side and then some business support. It'll impact about 250 associates around the globe.

Operator^ Our next question comes from the line of Richard Kus of Jefferies.

Richard Kus^ Just two for me. So first, can you talk a little bit about what performance you saw in the Versatic Acids business this year compared to last year?

Craig Rogerson^ George?

George Knight^ Yes. I mean -- yes, I think from a volume perspective, we continue to see some strengthening of the -- of volumes there. From an EBITDA standpoint, we're off year-on-year because last year we benefited. We had about $4 million of insurance proceeds related to the business interruption that we didn't have repeated this year.

Richard Kus^ Got it. Excluding those insurance proceeds, have you seen margins largely stable in that business?

George Knight^ Yes. We continue to see strong margins there. And again, we've seen pressure on some of the raw material pricing there. But we're trying to price accordingly.

Richard Kus^ Got it. And then a little bit bigger picture on the wind energy side of things. Once the volume ends up coming back there, I don't know if it's 2018 or 2019, whenever you see that end up coming back, do you believe that you'll be able to get back to your historical margins? Or has the business changed, such that there's increased competition and you won't be able to restore those historical level of margins? How do you see that progressing?

Craig Rogerson^ Let me try, and then Jody, you can certainly add to it. Clearly, with the Chinese government's push to try to get renewables down closer to the cost of power generated through coal, there's pressure on pricing, both whether in photovoltaic or whether you're in wind. And so there's -- that passes through to us, and so there's some pressures there.

On the other side of that though, we do have some technology advantages relative to being able to allow the production of these longer and longer blade. And so as that occurs, another way to drive the efficiency is longer blades. Clearly, that narrows down the competition, especially with some of the local Chinese competitors, and again may allow us -- should allow us to see some margin expansion then, because again, the pool of competitor is lower. So there's a trade-off there, but there's timing effect of that as well.

So I think that -- I think from our perspective, the volume recovery is important since we're the market leader there, and clearly, we'll drive overall earnings. Whether we can get back to margins that we saw the last time we were in the high part of the cycle is kind of dependent on where the technology moves or when the technology moves to the lower blades requiring our more proprietary technology.

Jody, do you want to add to that?

Joseph Bevilaqua^ No. I just would add that our outlook is more moderated pricing than what we've seen in the past, due to exactly what Craig indicated. I do believe our global supply chain network will provide us a lot of opportunities over the longer run as we can supply the world's top-class technology pretty much anywhere in the world fairly quickly. We've got the broadest baseline of production capability. So we feel when it does come back, we'll be in a position to supply quite quickly as volumes ramp up.

Operator^ Our next question comes from the line of [Hart Anand] of [Opel].

Hart Anand^ Can you -- I wanted to go back to the question on Forest Products. And if you were to adjust both for the new capacity and the slight hurricane impact in the segment, was EBITDA actually down? Or was it flat? How would you kind of categorize it?

George Knight^ No. I mean, overall, we feel very good about our formaldehyde business. It's hard to break out the impact of the new plants because we're better using the capacity across our manufacturing grid. Overall, our volumes in North America were up 6%; Latin America, they were up; and in Europe, even with some of the issues that we had, the volumes were up. So I think we feel very good about our formaldehyde business. Jody?

Joseph Bevilaqua^ Yes. Shifting to the Forest Products side, I think there was stock rebuilding. There was preparation for hurricane, and we saw volume after the hurricane restocking across the Gulf, the forest products plants there. And I think if you just look at year-over-year housing starts, it continue to be slightly up through the first half, cooled off a little bit. So just year-over-year, we've had solid volume across the whole formaldehyde and formaldehyde resins grid.

George Knight^ Where we did see some decreases in the whole segment, our Latin American resins business. Year-on-year, we continue to see some weakness there because of the economics down in Brazil. And we did -- on the resins side, we did see some drop in volume on -- in Europe. So those were the negative impacts that offset the positives of the new plants as well as the volume increases in other parts of the world.

Operator^ Our next question comes from the line of James Finnerty of Citi.

James Finnerty^ I noticed that you drew additionally on the ABL during the quarter. Just curious if there's -- you have any intention to pay that down in the fourth quarter with your positive free cash flow. And also noticed an increase in leases, just curious what drove that.

George Knight^ Sure. Yes, I mean the ABL fluctuates during the year, based on working capital needs. Normally, in the fourth quarter, as we generate cash, we'll use a portion of that to pay down the ABL. As far as the leases, we did do a sale-leaseback in the third quarter there that increased our leases by approximately $20 million. So that's what the increase you're seeing there.

James Finnerty^ And which segment was the sale-leaseback on? Is U.S --

George Knight^ Forest Products.

James Finnerty^ Forest Products. And was that in the U.S. or South America?

George Knight^ U.S.

Operator^ Our next question comes from the line of Nathan Schubert of JPMorgan.

Nathan Schubert^ Follow up on oilfield proppants. Is there sort of an oil price where you feel that well drilling becomes economical, such that proppants become profitable or volumes return sort of materially to kind of close to where they were before? How should we think about that in terms of the trajectory of that business and its correlation the with oil price?

Craig Rogerson^ Go ahead, Jody.

Joseph Bevilaqua^ Yes. I think the disruptive technology, the shift to more of 100-mesh strategy and significantly increased pounds per lateral length is probably going to stay in place and will be negative for resin-coated proppant. And you've seen that in all the large sample areas with significant volume increases.

The position of resin-coated sand as a percent of the total has dropped from about 9% to somewhere between 2% to 3% of the total sand pump, and that's probably going to stay with us as long as we're in the current basins that we're in. We do believe that as oil increases, there'll be more basins that'll be more technically profitable. And we believe that we'll see an increase as a percent of the total sand pumped as they get to these more difficult sand plays or basins. So it's going to come.

Also, as Craig indicated earlier, we continue to focus on the chemistry side. And we've come up with additional chemistries and novel approaches, and we're also working heavily on kind of our non-proppant coated chemistries as well. So we see our position broadening more than it has been in the past with new technology.

Nathan Schubert^ Okay. And then just one bigger picture question for me. I mean, I guess I kind of -- I can appreciate certainly all the cost savings and potential for EBITDA growth kind of -- but I look at the cap structure now, I know roughly 10 times the leverage and a looming sort of 2020 maturity wall. How should we think about the paths deleveraging? Is there potential for some sort of asset sale or something like that? I know you've been certainly proficient at that in the past. Any color around that would be helpful.

Craig Rogerson^ Yes. Let me try to just talk generally around that. Clearly, with the recognition of the debt maturities in 2020 and the need to [derive] some kind of a proceeds to be able to deal with that, potential divestitures are in play and I don't know that that's new for Hexion and something that's not been talked about in the past. But certainly, it's in play, and we're looking at potential -- different potential avenues to get where we need to get to be at the end.

The cost reductions are critical because one of the objectives that we have is to stop generating negative cash flows. And so to do that, EBITDA is obviously the largest driver of that, we need to continue to work on our working capital and manage our CapEx effectively. And I think we've been doing that, but we need to continue to focus on that. But EBITDA is the most important thing.

So one of the key drivers, since we can't control the China relative to the wind volume and the issues around proppants and the use of raw sand as long as they're in these basins where it's relatively simple to get it and that's really driven by the cost of oil, so we need to manage those things that we can control to drive the earnings up again, driving up to be able to develop and stop adding to the debt problem so getting least cash flow neutral. And secondly as we look at these businesses and the potential to create value through divestiture in dealing with the debt, higher EBITDA is better. So all of those things are driving the work towards better efficiencies, understanding what we're going to invest in and the choices that we have to make and doing it as cost effectively as possible. And that's how we got to the point we are now and are really pointed to deliver on the numbers that we talked about for 2018, and it's critical that we do.

Operator^ Our next question comes from the line of Sameer Bhalla of DDJ Capital.

Sameer Bhalla^ Actually, my question was answered.

Operator^ And our next question comes from the line of [Hart Anand] of [Opel].

Hart Anand^ I got cut off before I said I just wanted to follow up on Forest Products again. So a lot of the pricing action, obviously, got eaten up by raw materials. How do you see that playing out over the next couple of quarters as there's some stabilization in the raw material price?

Craig Rogerson^ Yes. George, go ahead, either of you.

George Knight^ Yes. I was just going to say as raw material prices stabilize, that helps us from a pricing standpoint. About 50% of our contracts that we have in the Forest Products business, we have pass-throughs on the raw materials. So historically, we have seen some lead lag impact, but we've always been able to recover over a period of time. And I think what you saw in the third quarter there was some positive impact of that, of some of the pressure that we saw in the first half of the year where it negatively impacted us from a lead lag standpoint. So stable pricing, slightly increasing pricing without any big blips is beneficial for us on a go-forward basis.

Operator^ And I'm showing no further questions at this time. I turn the call back over to Craig Rogerson for any closing remarks.

Craig Rogerson^ Yes. Thanks to you all for your interest and look forward to sharing our full year results with you early in 2018. Thanks, again.

Operator^ Ladies and gentlemen, thank you for participating in today's conference. That does conclude this program. You may now disconnect. Everyone, have a great day.