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MPMQ - Q2 2017 MPM Holdings Inc Earnings Call

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CORPORATE PARTICIPANTS

Erick R. Asmussen *MPM Holdings Inc. - Senior VP & CFO*

John G. Boss *MPM Holdings Inc. - CEO, President & Director*

John Kompa *Hexion Inc. - VP of IR & Public Affairs*

CONFERENCE CALL PARTICIPANTS

Nathan E. Schubert

Roger Neil Spitz *BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Momentive Performance Materials Q2 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference John Kompa, Investor Relations for Momentive. Sir, you may begin.

John Kompa - *Hexion Inc. - VP of IR & Public Affairs*

Thank you, Nova. Good morning, and welcome to Momentive's Second Quarter 2017 Earnings Conference Call. Leading today's call will be Jack Boss, Chief Executive Officer and President; and Erick Asmussen, Senior Vice President and Chief Financial Officer. 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 Investor Relations section. A replay of this call will be available by telephone for 1 week, and the replay dial-in information is contained in our latest earnings release. A replay of this call will also be posted on our website.

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 highlighted on Page 2. 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, including EBITDA. The most directly comparable GAAP measures are set forth in our presentation, and reconciliations to such GAAP financial measures 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 Jack Boss to discuss our latest results.

John G. Boss - *MPM Holdings Inc. - CEO, President & Director*

Thanks, John, and good morning, everyone. I'm pleased to report another strong quarterly performance. We continue to gain traction by executing our long-term strategic growth plan. Net sales for the second quarter increased 1% from the prior year, primarily reflecting the net effect of stronger demand in certain specialty silicone products. In the second quarter, segment EBITDA increased 12% year-over-year, as we saw solid demand throughout most of our end markets. In addition, our segment EBITDA margins continued to improve and reached 12.5% in the second quarter, an increase of 120 basis points year-over-year.



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Moving to segment performance. Slide 5 represents our quarterly silicones segment results. Silicones segment's revenue for the quarter totaled \$542 million, a 1% increase versus the prior year, which reflects the impacts of our efforts to improve our mix of products. Our year-over-year volume declined 3% which highlights these efforts, as our specialty silicones volumes were up 4%, while commodity segments decreased 19%, due to our intentional mix shift in our portfolio and the impacts of the exit of siloxane production in Leverkusen late last year. Silicone segment EBITDA and related margins continued to improve year-over-year with increases of 7% and 80 basis points respectively, impacted by the growth in electronics and automotive markets. These increases in silicones segment EBITDA are primarily due to our ongoing efforts to intentionally drive a product mix shift to higher value-added products, improve manufacturing efficiency, raw material deflation and our global cost-reduction initiatives.

Turning to our quartz segment on Slide 6. Our quartz segment sales increased 11% year-over-year, which was primarily due to higher volumes resulting from increased semiconductor market demand. Quartz segment EBITDA increased 67% to \$10 million in the quarter, reflecting the benefits of the sales growth leverage, our cost control efforts initiated last year and substantially improved manufacturing efficiencies.

Turning to Slide 7. Let me quickly highlight a few key growth initiatives that occurred in the second quarter. First, we were pleased to successfully complete the integration of the assets of Sea Lion Technology in the second quarter. This acquisition reinforces our commitment to our NXT silane global product line, and we completed a planned capacity expansion at this facility also in the second quarter. We recently started up a new Silquest A-Link 35 reactor at Sistersville, West Virginia to support our silanes production portfolio. Also, during the second quarter, we commissioned a new mixer in Waterford for fluoro elastomers, and our NXT expansion in Leverkusen, Germany remains on pace to open by the end of 2017. As we've mentioned before, we continue to systematically invest throughout our global network to improve operations, which we are now seeing in our results. Let me now turn it over to Erick, where he'll highlight our balance sheet and CapEx outlook.

Erick R. Asmussen - MPM Holdings Inc. - Senior VP & CFO

Thanks, Jack. We continue to maintain a strong balance sheet, with significant liquidity. At the quarter-end, we had cash plus borrowing availability of \$342 million, and we have no significant debt maturities till 2021. We continue to invest in areas, where we've a strategic advantage. And the first half of 2017 capital expenditures totaled \$77 million. We now expect to invest approximately \$150 million in capital expenditures during 2017. Net working capital was \$485 million at the end of the second quarter. And we remain focused on optimizing our net working capital, and we continue to anticipate that working capital will be a source of cash in 2017. Now I'll turn the call back over to Jack for wrap up.

John G. Boss - MPM Holdings Inc. - CEO, President & Director

Thanks, Erick. We are pleased with our second quarter performance, as it reflects progress against our strategic plan. And looking ahead, we continue to see strong momentum in our business. Longer-term, we remain focused on the three main pillars of our strategy, which are accelerating profitable growth, transforming our global operations and evolving our culture. As we look out to the balance of 2017, we see continued solid growth and positive fundamentals in the markets in which we operate. Now, I'll turn the call back over to John.

John Kompa - Hexion Inc. - VP of IR & Public Affairs

Thanks, Jack. Nova, we now like to open the line for questions. If you could please remind callers of those instructions.

QUESTIONS AND ANSWERS
Operator

(Operator Instructions) Our first question comes from the line of Nathan Schubert of JP Morgan.



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Nathan E. Schubert

So just first on raw materials. So it looks like some of the prices of raws have gone up since quarter-end. Can you just talk about how we should think about that going forward?

John G. Boss - MPM Holdings Inc. - CEO, President & Director

Yes, what we saw is a slight bubble, mostly in methanol and some other small key raw materials in sort of Q1, end of Q2. We -- that has since subsided, so we don't see a lot of pressure on raw materials, as we look out throughout the balance of the last year. I mean, anything we saw, we probably experienced in Q2 and a little bit of carryover maybe into Q3, as we work off that inventory. But it really was a spike and not a sustained sort of raw material increase.

Nathan E. Schubert

Okay, great. Then just second quarter, on the quartz volumes. Can you kind of help us think about how we should think about that going forward? Just -- first quarter, I think, volumes were up 36%. Now you are up 11% this quarter. How we should think about that?

John G. Boss - MPM Holdings Inc. - CEO, President & Director

Yes, so we continue to be bullish on our quartz and ceramics business. The semiconductor industry continues to be strong, we see it. It's too early to call 2018, but as we look for the balance of '17, we continue to see good orders. We just attended some key -- you know SEMICON West, and there was a lot of announced spending and investment for 2018. So assuming that goes forward, we see market conditions to be robust, not only the back of this year but also going into 2018. So about 60% of our quartz and ceramics business is really semiconductor related, and that coupled with some really strong internal performance on our operations, we feel good about the business for the back half of this year, and even as we head into '18.

Operator

Our next question comes from the line of Roger Spitz of Bank of America.

Roger Neil Spitz - BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst

Yes. In raw materials, the comments was -- there were some that were lower, you were saying that methanol was moving up. I'm assuming silicon metal was moving up. Which were the lower raw materials, was it siloxane that you were buying in or some other -- and/or some other product -- raw materials?

John G. Boss - MPM Holdings Inc. - CEO, President & Director

Want to take that, Erick?

Erick R. Asmussen - MPM Holdings Inc. - Senior VP & CFO

It all really depends on the periods you're comparing to. Where we -- as you know during '16, we saw a deflation of silicon metal and the methanol. And then we saw methanol sort of spike up in the sort of the first part of 2017. So it really as we see that the silicon metal and methanol, they ramped down, a little bit of ramp-up, methanol really spiked up in the first quarter and then trailed back down. So little bit of -- we'll see a lumpiness in the silicon metal and methanol. But right now, we're sort of at a more stable to our plan.



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Roger Neil Spitz - BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst

So the comment on page -- Slide 4, on the raw material deflation that was more of year-over-year comparison then? I mean that's how it would be?

Erick R. Asmussen - MPM Holdings Inc. - Senior VP & CFO

Yes.

John G. Boss - MPM Holdings Inc. - CEO, President & Director

Yes.

Roger Neil Spitz - BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst

Okay. Do you have a sense of the silicon industry organic commodity and/or overall growth in Q2 '17 year-over-year? I understand your volumes, were you intentionally moved away from commodity also shutdown the Leverkusen siloxane significantly impacted year-over-year results. Was the -- do you have a sense of what organic growth was or industry growth during that period?

John G. Boss - MPM Holdings Inc. - CEO, President & Director

None other than sort of a normal GDP plus, sort of that 4% to 5% range, which I think, silicones continues to track well. We saw a pretty good end market. So I think we're in sort of 4% to 6% range, where the silicone industry has grown historically. I don't know that a lot of has changed, I mean you could talk about different market verticals, but that silicones pretty much stayed in that range.

Roger Neil Spitz - BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst

Okay. And Jack, just to make sure, I heard correctly, did you say earlier that 60% of quartz is semi- related?

John G. Boss - MPM Holdings Inc. - CEO, President & Director

Yes, roughly. As for semi, If you want to go semi, non-semi that's probably a rough estimate, 60% to 70%.

Roger Neil Spitz - BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst

Okay. And you certainly talked about semi in answer to the question, but was that significant growth? Was that mainly related to semi? Or was it more in semi than non-semi? Or was it in both markets?

John G. Boss - MPM Holdings Inc. - CEO, President & Director

No, it was actually in both, automotive, aerospace are the kind of the 2 of the other key markets in our ceramics business and our quartz. And both of them, we saw a good growth as well. So it was across the entire quartz and ceramics market segments.



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Roger Neil Spitz - BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst

And lastly for me. The CapEx you moved up for '17 to \$150 million to \$130 million. Was there any -- was that a particular project? Or you decided there were more things that you can do this year?

John G. Boss - MPM Holdings Inc. - CEO, President & Director

You want to take that one, Erick?

Erick R. Asmussen - MPM Holdings Inc. - Senior VP & CFO

Yes, Roger, combination. More projects, so we earned right to do more. The other was, we had insurance reimbursements, so the capital related, the insurance reimbursements. So a combination of more projects and we'll see a reimbursement related to the fire in Leverkusen from last year.

Operator

(Operator Instructions) And sir, I am showing no further questions in the queue. I'd like to turn the call back to Jack Boss, CEO of Momentive for closing remark.

John G. Boss - MPM Holdings Inc. - CEO, President & Director

Thanks, operator, and thanks to everyone for joining our call today. We remain committed to delivering top line growth and sustainable EBITDA growth through execution of our strategic plan. And we look forward to updating you again in November. Thanks, everyone.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the call. You may now disconnect. Everyone, have a wonderful day.

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