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OLN - Q1 2017 Olin Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Olin Corporation First Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I'd now like to turn the conference over to Larry Kromidas. Please go ahead.

Larry P. Kromidas - *Olin Corporation - Director of IR and Assistant Treasurer*

Thank you, Keith. Good morning, everyone. Before we begin, I want to remind everyone that this presentation, along with the associated slides and the question-and-answer session following our prepared remarks, will include statements regarding estimates of future performance. Please note that these are forward-looking statements and that actual results could differ materially from those projected. Some of the factors that could cause actual results to differ are described, without limitations, in our Risk Factors section of our most recent Form 10-K and in our first quarter earnings press release.

A copy of today's transcript and slides will be available on our website in the Investors section, under Calendar of Events. The earnings press release and other financial data are -- and information are available under Press Releases.

With me this morning are John Fischer, Olin's Chairman, President and Chief Executive Officer; Pat Dawson, Executive Vice President and President of Epoxy & International; John McIntosh, Executive Vice President, Synergies and Systems; Jim Varilek, Executive Vice President and President, Chlor Alkali Products and Vinyls and Services; and Todd Slater, Vice President and Chief Executive (Financial) Officer.

Now I'd like to turn the call over to John Fischer. John?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Good morning, and thank you for joining us today.

Last night, we reiterated our annual adjusted EBITDA forecast of $1 billion, plus or minus 5%. However, with our current outlook for volumes and pricing, we believe our full year 2017 results will more likely be in the plus 5% range. During this call, we will review our outlook for the second quarter and second half of the year.

Our first quarter 2017 results were in line with our expectations. The Chlor Alkali Products and Vinyls segment earnings improved sequentially, reflecting improved caustic soda and ethylene dichloride prices and increased volumes. These were partially offset by planned maintenance turnaround activities at our McIntosh, Alabama and Plaquemine, Louisiana facilities and higher ethylene and electricity costs, primarily due to increased natural gas prices. The planned maintenance turnarounds idled approximately 7% of our Chlor Alkali capacity during the quarter.

The Epoxy segment results were negatively impacted by higher raw material costs associated with benzene and propylene pricing, which increased 36% and 64%, respectively, from year-end levels. The impact of Epoxy raw material cost increases were partially offset by increased product prices and higher volumes.

Winchester's first quarter 2017 segment earnings declined year-over-year due to lower commercial volumes, partially offset by lower operating costs. Lower customer demand, which we expect to continue through the second quarter of 2017, have negatively affected commercial ammunition volumes.

Our first quarter 2017 results were impacted by $4.7 million of additional stock-based compensation expense, which includes mark-to-market adjustments compared to first quarter 2016.

During March, Olin completed the refinancing of the term loan debt incurred as part of the Dow acquisition and expanded our revolving credit facility. The new senior credit facility will mature in March 2022. In conjunction with this refinancing, we issued $500 million of 5 1/8% senior notes due September 15, 2027. We now have annual debt maturities that average approximately $100 million a year over the next 5 years.

Our outlook for the second quarter is on Slide 4. As we move into the second quarter 2017, we are expecting adjusted EBITDA to improve slightly from the first quarter. We are forecasting higher caustic soda, ethylene dichloride and epoxy pricing in the second quarter compared to the first quarter levels. In the second quarter, we have plant maintenance turnarounds at our largest facility in Freeport, Texas. The Freeport Vinyls asset will undergo an approximately 40-day outage during the quarter. This turnaround is performed once every 3 years. The majority of our Freeport Chlor Alkali assets will also be offline for approximately 30 days for once in every 5 years maintenance turnaround. This turnaround is being done in coordination with our largest customer. This planned maintenance turnarounds are expected to idle approximately 11% of our chlor alkali capacity during the second quarter. We estimate that our planned maintenance turnaround costs and associated lower product volumes will negatively affect second quarter adjusted EBITDA by approximately $25 million as compared to the first quarter.

In the second quarter, we expect sequential improvement in the Epoxy segment compared to the first quarter as implemented and announced price increases offset the raw material cost increases associated with benzene and propylene. Additional increases in benzene and propylene costs represent a risk to the forecasted sequential improvement in Epoxy.

Winchester's second quarter earnings are forecast to be lower year-over-year due to lower commercial sales.

Our outlook for the second half of 2017 is on Slide 5. As we look to the second half, the Chlor Alkali Products and Vinyls business is expected to benefit from reduced maintenance turnaround activities and lower ethylene costs. During the third quarter, we expect to procure the second tranche of cost-based ethylene, which will replace ethylene purchase in the first half of the year at market prices. We believe that the benefits from the reduced impact of maintenance turnarounds and increased cost-based ethylene should improve Chlor Alkali Products and Vinyls second half 2017 adjusted EBITDA by approximately $65 to $85 million compared to the first half of 2017 levels.

Additionally, we expect benefits from higher domestic and export caustic soda pricing in the second half of the year. This view on pricing reflects the April 2017 monthly domestic caustic soda price index increase of $45 per ton and the spot index increase of $20 per ton the April 2017 monthly chlorine price indices increased by $15 to $25 per ton, and there are forecasted increases in hydrochloric acid and bleach pricing.

Lower EDC pricing in the second half of the year as compared to the current pricing levels is a second half headwind. We continued to expect, however, that full year 2017 average EDC selling prices will be approximately 25% higher as compared to the full year 2016.

We expect improved performance from both the Epoxy and Winchester businesses in the second half of 2017 compared to the first half of the year. The second half 2017 Epoxy results are expected to benefit from higher pricing and lower raw material costs than we experienced in the first quarter. Second half 2017 Winchester results include a seasonally strong third quarter and an increased level of military sales associated with its second source Army contract.

Now I will spend just a few minutes on the first quarter results by business. First, turning to Chlor Alkali Products and Vinyls, which is on Slide 6.

First quarter 2017 sales of $836.9 million increased 19% over sales in the first quarter of 2016. The increase reflects both higher caustic soda and EDC pricing and improved year-over-year volumes.

Chlor Alkali Products and Vinyls first quarter adjusted EBITDA increased 13% or $22.1 million year-over-year to $192.1 million. The improvement reflects the higher caustic soda and EDC pricing and volumes, I just mentioned, which were partially offset by higher planned maintenance turnaround costs, increased electricity costs driven by higher natural gas prices and higher ethylene costs. First quarter adjusted EBITDA includes $104.6 million of depreciation and amortization expense.

Adjusted EBITDA in the Chlor Alkali Products and Vinyls segment is expected to increase significantly in full year 2017 compared to 2016, driven by higher caustic soda and ethylene dichloride pricing and additional cost synergy realization, partially offset by increased electricity costs as a result of higher natural gas costs and increased maintenance turnaround costs. We continue to expect that we will acquire the second tranche of cost-based ethylene during the third quarter, which will provide an annualized cost reduction of up to $40 to $50 million, depending on ethane and purchased ethylene costs.

A few points of reference. Second quarter 2017 domestic and export caustic soda prices are forecast to increase from first quarter levels.

Second quarter EDC prices are also forecast to increase from first quarter levels.

Caustic soda pricing trends continued to be favorable. Domestic caustic soda price indices, which increased for 9 consecutive months in 2016, increased an additional $10 per ton in the first quarter of 2017 and increased $45 per ton in April. Spot export caustic soda prices, which also increased for 9 consecutive months in 2016, increased an additional $40 per ton in the first quarter of 2017 and increased $25 per ton in April.

Now turning to Slide 7, I would like to reiterate our long-term macro-level view on caustic soda. Olin believes the factors we have discussed before continue to be in place and continue to develop favorably.

North American capacity has been reduced and no major Chlor Alkali capacity increases have been announced in North America.

Outside of North America, the mandated elimination of European mercury-based chlor alkali production by the end of this year is expected to result in additional chlor alkali capacity reductions of approximately 900,000 tons, which will result in approximately 1.5 million tons of net chlor alkali capacity reductions since the passage of the mandate.

This reduction in production is being borne out by European caustic soda imports and exports. During 2016, we saw caustic soda imports into the United States from Europe dropped by approximately 50% to approximately 70,000 tons, while exports into Europe from the United States reached approximately 300,000 tons, an increase of 60% from 2015 levels.

We've also seen caustic soda exports from China decline each year since 2012, with further declines expected. Overall, Chinese exports have declined approximately 35% since 2012. We believe this reflects the combination of reduced supply, driven by lower chlorine production and increased internal caustic soda consumption.

As a result, 2016 caustic soda imports into the United States declined approximately 15% from 2015 levels and were approximately 600,000 tons for the full year 2016. In addition to declining imports, caustic soda export sales from North America reached record levels in 2016 and were approximately 3.3 million tons. Improved demand from South America, Australia and Europe resulted in 2016 caustic soda exports increasing approximately 19% from 2015 levels. Caustic soda exports from North America are forecast to increase further in 2017.

Because of these trends, Olin continues to believe that the Chlor Alkali industry is in the beginning stages of a favorable, multiyear caustic soda pricing environment, and we are well-positioned to continue to benefit from these dynamics.

Let us move ahead now to the performance of our Epoxy segment, which is on Slide 8.

First quarter 2017 Epoxy sales increased approximately 23% or $107 million compared to first quarter 2016 levels as a result of both higher pricing and higher volumes. The higher prices partially offset the impact of higher raw material costs, primarily associated with benzene and propylene pricing.

First quarter 2017 adjusted EBITDA of $21.2 million in the Epoxy business declined approximately $9 million year-over-year, reflecting the negative impact of higher raw material costs.

First quarter 2017 Epoxy volumes improved 11% compared to last year's first quarter levels. Increased Epoxy volumes benefit our Chlor Alkali Products and Vinyls segment by improving our chlor alkali operating rates and providing additional caustic soda to sell as Epoxy products are net consumer of chlorine in our system.

The Epoxy business is sensitive to the prices of both benzene and propylene. During the first quarter of 2017, benzene cost increased 36% and propylene cost increased 64%.

We have initiated price increases to mitigate the higher raw material input costs. We've been successful in implementing some of the price announcements, but the price increases did not fully offset the higher hydrocarbon cost during the first quarter. In Olin system, the majority of our contracts were upstream products automatically adjust for higher and lower benzene and propylene costs. These adjustments typically occur on a one to three month lag. During April, we did see prices for benzene and propylene stabilize.

In 2017, we continue to expect adjusted EBITDA in the Epoxy business to improve compared to 2016. Improved volumes and lower operating costs should drive the year-over-year improvement. Through April, we have seen higher volumes in 2017 that were experienced during the first 4 months of 2016.

Now turning to Winchester.

First quarter 2017 sales decreased approximately 11% compared to first quarter 2016 levels, as customers reduced inventory that had been built ahead of the November 2016 presidential election in anticipation of a different election outcome. We expect this impact to continue through the second quarter.

First quarter 2017 Winchester adjusted EBITDA was approximately 10% lower than first quarter 2016 adjusted EBITDA as a result of lower commercial volumes, primarily reflecting lower demand for pistol, rifle and shotshell ammunition, partially offset by lower operating costs.

Winchester will benefit from the 2016 completion of the Oxford relocation project, which will provide an incremental cost savings of $5 million from 2016 levels. Winchester will also benefit from increased military sales from its second source contract with the U.S. Army during the second half of the year. However, because of the lower commercial ammunition demand in the first half of 2017 and higher commodity metal prices, we are forecasting that Winchester full year 2017 results will be below 2016 levels.

That said, we continue to believe that the Winchester business can earn a minimum of $125 million of annual adjusted EBITDA in any environment.

I would now like to take a minute to update everyone on our synergy efforts, which are laid out on Slide 10. We expect annual cost-based synergy efforts to yield $50 to $75 million of additional savings in 2017. In March, we made the first shipment of bleach from our new Freeport, Texas bleach facility. This new plant adds approximately 10% to our bleach capacity, and bleach remains a key element of Olin's growth strategy. The successful completion of this project is one of the critical steps in achieving our $100 million revenue synergy target.

During the second quarter of 2017, Olin will be challenged by volume -- by the volume of planned maintenance turnarounds. These turnarounds will negatively affect second quarter results, but we're committed to running all of our plants reliably. This has been a key element of our strategy since the merger was completed, and we believe it will position us not only for a strong second half of 2017, but well into the future.

And with that, I'll turn the call over to Todd Slater. Todd?

Todd A. Slater *- Olin Corporation - CFO and VP*

Thanks, John.

Let's turn to our 2017 cash flow forecast, which is on Slide 11. We expect to generate $500 million of free cash flow before dividend payments and the $209 million ethylene investment that we expect to make midyear 2017. Our expectation is that by the end of 2017, the combination of debt reduction and EBITDA growth will reduce net debt-to-EBITDA leverage ratio to the range of 3.1 to 3.3 times.

Starting with the midpoint of our full year adjusted EBITDA forecast of $1 billion on the far left of the waterfall chart, we add back $10 million in taxes, reflecting the result of an income tax refund in 2017. In 2017, we currently believe that the book tax -- the book effective tax rate to be in the 25% to 30% range. We do not expect to be a cash taxpayer in 2017. This reflects the utilization of net operating loss carryforwards created over the last 2 years. We expect net operating loss carryforwards to provide a cash tax shield of approximately $70 million in 2017. Additionally, we currently expect to exit 2017 with net operating loss carryforwards to provide a cash tax shield in future years of approximately $60 to $70 million.

Column 3 shows the capital spending we expect in 2017. The $325 million is the midpoint of our current forecast for capital spending. The annual maintenance capital spending is expected to be between $225 and $275 million.

Last year, Olin entered into a program to accelerate the collection of receivables, which created a permanent working capital reduction of $126 million in 2016. We expect that we can expand this program in 2017 and realize an additional $50 million reduction in receivables. This, when combined with the inventory reduction in Winchester, will generate $75 million of cash flow from working capital reductions in 2017.

The next column, onetime items, include integration and cash restructuring costs of approximately $50 million. The next column represents the -- an estimate of interest expense. We have approximately 30% of our debt at variable interest rates, and we are forecasting 2017 interest rates will be higher than those we experienced in 2016.

The far right column, we are forecasting $159 million of free cash flow after paying our normal quarterly dividend, totaling $132 million for the year and the $209 million investment for 20 years of additional ethylene and producer economics that will be paid to the Dow -- will be paid when the Dow Chemical Company's Texas-9 cracker is completed. We are forecasting this payment will be made at the beginning of the third quarter.

Finally, last Thursday, April 27, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. Dividend is payable on June 9, 2017, to shareholders of record at the close of business on May 10, 2017. This is the 362nd consecutive quarterly dividend to be paid by the company.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Frank Mitsch with Wells Fargo.

Aziza Gazieva - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

It's Aziza on for Frank. Question, so it sounds like the $25 million expected headwind is all attributable to Freeport, but how does the rest of your turnaround schedule look for the year? And should we be counting on 2Q as a high watermark?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Q2 will definitely be the high watermark. You can look at Q3 and expect minimal turnarounds, and then there'll be some smaller turnarounds in Q4 associated with the seasonally weaker demand.

Aziza Gazieva - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. And then going to your ethylene investment, should we still be thinking of that as a $40 million savings annually, which translates for 2017 to roughly $20 million for the second half?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Yes, we said for -- the annual benefit is $40 to $50 million, depending on ethane prices and market-based ethylene cost.

Operator

And the next question comes from Aleksey Yefremov from Nomura Instinet.

Matthew Skowronski - *Nomura Securities Co. Ltd., Research Division - VP*

(technical difficulty) 10% to 20% of caustic is exported from your system, it sounds like you're at the top of that range now. Do you foresee yourself kind of increasing that as a percent of sales?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

We didn't get the first part of your question. Could you repeat it? I'm sorry.

Matthew Skowronski - *Nomura Securities Co. Ltd., Research Division - VP*

Just caustic exports, typically you're seeing 10% to 20%, at least that's what you've mentioned in the past of caustic is exported. Do you foresee yourself wanting to kind of up that percentage?

James A. Varilek - *Olin Corporation - EVP and President of Chlor Alkali Vinyls & Services*

This is Jim Varilek. You're correct in the 10% to 20% range, we continue to operate in that. And what we're doing right now, the market is tight, and so what we're doing domestically is we're fulfilling all of our contracts and then we're placing our product in the export market, where we can make the most money. But we've got to live up to our domestic markets as we have contracts.

Matthew Skowronski - *Nomura Securities Co. Ltd., Research Division - VP*

Okay, all right. And then on Epoxy, could you just talk about the lag pricing impact given raw material fluctuation? And how much of this business is kind of indexed to raw materials?

Pat D. Dawson - *Olin Corporation - EVP and President of Epoxy & International*

Yes, this is Pat Dawson. And on Epoxy, when you have this kind of run up in hydrocarbon cost, there's going to be a lag on the way up. You just can't get ahead of those kind of increases. Hydrocarbon stabilized and start to come down, then we can lag it on the way down, and that would be a positive thing. The index is primarily in our upstream products and epichlorohydrin in our (inaudible), and so the majority of that is formula-based tied right to benzene and propylene. So that moves accordingly, and we have very stable margins there. We have very little index formula-based price in our midstream in the Epoxy resin -- liquid Epoxy resin space or downstream.

Operator

And the next question comes from our Arun Viswanathan from RBC Capital Markets.

Daniel Joseph DiCicco - *RBC Capital Markets, LLC, Research Division - Associate*

This is Dan DiCicco for Arun. I've seen in recent consultant reports that suppliers are looking to do more contracts relative in looking to the spot market to ensure supply, given tight conditions. I mean, have you guys seen this at all? Does this benefit you guys with higher domestic prices?

James A. Varilek - *Olin Corporation - EVP and President of Chlor Alkali Vinyls & Services*

This is Jim Varilek. Yes, we have seen that, that security of supply is taking precedents over pricing. So contracts are being sought on the export market as well as traditionally on domestic.

Daniel Joseph DiCicco - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And just back on the ethylene tranche, how long will it take for you guys to receive that benefit after the Dallas Freeport cracker starts up? So if it could start up in June, are you going to see that in July? Or what kind of lag is there?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

From my standpoint, when we pay, we'll be getting ethylene.

Operator

And the next question comes from Don Carson of Susquehanna Financial Group.

Emily Wagner - *Susquehanna Financial Group, LLLP, Research Division - Associate*

This is Emily Wagner on for Don. In your caustic soda business, what percentage of your contracts are tied to the index? And as a portion of contracts reset at the beginning of the year, did you get that discount down from the 30% to 70% range?

James A. Varilek - *Olin Corporation - EVP and President of Chlor Alkali Vinyls & Services*

The -- from a contractual standpoint, we're straight -- we're seeking to improve every one of our contracts all of the time. And so as those contracts come up, we're still in the 30% to 70% range, but we're continuing to improve every contract in a variety of different fashions as those contracts come available. And most of our contracts run into 2- to 5-year range, so we'll be expecting to improve them over that time period.

Emily Wagner - *Susquehanna Financial Group, LLLP, Research Division - Associate*

Okay. And are most tied to the index?

James A. Varilek - *Olin Corporation - EVP and President of Chlor Alkali Vinyls & Services*

We have the majority of our contracts still tied to index, yes.

Emily Wagner - *Susquehanna Financial Group, LLLP, Research Division - Associate*

And then on chlorine, there's another $25 price increase on the table. Can you discuss how that's being received by the market? And then on the bleach expansion in Freeport, what percent of the chlorine is now going to bleach?

James A. Varilek - *Olin Corporation - EVP and President of Chlor Alkali Vinyls & Services*

The chlorine increase is being well received, and we continue to believe that the fundamentals work towards both sides of the ECU, so that's moving positively. And from a bleach standpoint, we don't give out specific chlorine usages for the variety of derivatives that we have.

Operator

And the next question comes from Jason Freuchtel with SunTrust.

Jason Alexander Freuchtel - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

As a follow-up to an earlier question, does the volatility on raw material costs within your Epoxy business typically have an impact on demand?

Pat D. Dawson - *Olin Corporation - EVP and President of Epoxy & International*

Yes, this is Pat Dawson. The short answer is no. We sell this volatility that we articulated in the first quarter, and you saw that our demand was very strong. It was up 11% over the same quarter last year, and we expect demand to continue to be on plan.

Jason Alexander Freuchtel - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Okay. And I apologize if I missed this, but what was the amount of synergies you realized in 1Q? And how should we think about the pace of synergies throughout '17?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

We didn't give you a specific number for Q1. We said $50 to $75 million of cost synergies in 2017, and then we talked about the bleach plant coming on stream in March. So -- and that represents revenue synergy that would obviously translate into bottom line synergy.

Jason Alexander Freuchtel - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Okay. And I guess in terms of the cost synergy, should we think that you -- I mean, I guess, you had realized more over the course of the year? Is that...

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Yes, I would advise it, if you're trying to model it, just model it as being level over the course of the year.

Jason Alexander Freuchtel - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Okay. And then on your corporate and unallocated cost, what drove the sequential increase? And how should I think about those over the course of '17?

Todd A. Slater - *Olin Corporation - CFO and VP*

Jason, this is Todd. The biggest thing that happened in the first quarter was stock-based compensation was up $4.7 million year-over-year. That was really driven by mark-to-market on stock as the stock price was up about $7 from the end of the year to the end of March. And we've also commented that pension was going to be up -- was going to have -- pension income would be lower, $10 million for the year and the first quarter was about $2 million of that.

Operator

And the next question comes from Jerome Roberts with UBS.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

Where are you in the process of negotiating a renewal in Dows contract with Shintech versus finding some other option there?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

John, we had in our 10-K the comment that we had exercised the option on that ethylene -- third tranche of ethylene. It's obviously not going to be received until 2020, but I would take that as an indication that we've reached an agreement to extend that contract, and we will have a need for the ethylene.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

Okay. So there are no further negotiations, with Shintech required?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

That's correct.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

Okay. And then in your guidance for the step-up in second half earnings relative to the first half, is it roughly half Chlor Alkali Vinyls and have the seasonal Winchester and lower benzene, lower propylene, et cetera, just trying to think about the size of the big buckets for the second half step-up over first half.

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Yes, so we gave you one big bucket, which was $65 to $85 million, which is all Chlor Alkali vinyls and products associated with lower turnaround costs and better ethylene pricing. On top of that, there's an element of higher caustic soda and chlorine prices offset by EDC prices. So I would say, in round numbers, it's probably 75% Chlor Alkali Products and Vinyls and 25% Winchester and Epoxy.

Operator

And the next question comes from Kevin McCarthy with Vertical Research.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

With regard to Winchester, I think you had commented you expect higher military sales in the back half of the year. Could you shed some light on the magnitude of that as well as the pressure volumetrically you're experiencing on the commercial side of the business?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Well, I'd say on the military contract that we have an opportunity in the back half of the year to have sales that are up in the 30% to 40% range. I think, on a volume basis, we probably seen 15% to 20% decline in Winchester's commercial sales in the first quarter. I don't -- we don't necessarily believe that's going to sustain itself all year. I mean, in the fourth quarter of last year, we saw a pretty significant decline year-over-year. So as we get further out into the year, the comparables get much easier for Winchester on the commercial side. But we did say we expect commercial demand to continue to be weak in Q2.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

Okay. And then second question, if I may, did your hedge positions have any material impact on your earnings in the first quarter? And what would your outlook be in that regard for the second quarter?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

They did not have a material impact. And as we look at where natural gas is today or where copper and lead are today, I think I would answer the same thing for the second quarter.

Operator

And the next question comes from Dmitry Silverstein with Longbow.

Dmitry Silversteyn - *Longbow Research LLC - Senior Research Analyst*

Couple of questions to follow up. First of all, on the expectations that you provided for the second half of the year of lower propylene and benzene pricing, it -- what is that based on in terms of contracts that you're signing already or visibility that you have on second half pricing? Or is it just a matter of the year-over-year headwind dying down in the second half of the year not necessarily pricing being down?

Pat D. Dawson - *Olin Corporation - EVP and President of Epoxy & International*

Yes, I think, Dmitry, this is Pat Dawson. First of all, this is all based on what we see coming out of IHS on propylene and benzene. We have very -- we have a lot of freedom on pricing in our midstream and downstream part of the business. As I've mentioned earlier, we are -- we have the majority of our products indexed to propylene and benzene in the upstream part of the business, but mitigates any of that risk.

Dmitry Silversteyn - *Longbow Research LLC - Senior Research Analyst*

Okay. So I guess, I'm trying to understand your comment on the second half of the year price declines that I thought I heard, but maybe not. Okay. Just a quick follow-up on the dividend policy. You've been paying a $0.20 dividend for much of those 300-odd quarters in a row. Any thought being given to either increasing the payout ratio or in some other way driving dividend increases? Or is this -- does this have to wait until you get your balance sheet in a better shape?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

I was going to answer that way by saying our priority right at the moment is to pay down debt.

Dmitry Silversteyn - *Longbow Research LLC - Senior Research Analyst*

And what level of debt do we need to get to as a multiple of EBITDA to -- for you to consider a different dividend policy?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Well, we've talked about that our targeted debt-to-EBITDA mid-cycle needs to be in the 1.5 to 2 times range.

Operator

And the next question comes from Richard O'Reilly with Revere Associates.

Richard O'Reilly

Two quick questions. The first one, I might be asking you to repeat this, but the Freeport maintenance expense, is that an incremental $25 million versus the first quarter? Or was that just the absolute number for Freeport?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

It is an incremental number that covers both incremental maintenance expense and the impact of lost production.

Richard O'Reilly

Okay. What was the expense then in the first quarter, if you had given that?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

We did not give that.

Richard O'Reilly

Okay. So but $25 million incremental to what it was in the first quarter.

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

That's correct.

Richard O'Reilly

Okay, fine. Second question is, you kind of said it quickly at the beginning, but you said your full year guidance, now you think it's on the plus 5% side versus plus/minus. Can -- you might have done this, but is there anything that you're pointing to that gets you to the plus side versus plus/minus?

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Well, we went through our view of the second half and the comparability to the first half. And we talked about the difference in turnaround cost, the difference in ethylene, and then we talked about the favorable pricing. We talked about -- we think both Epoxy and Winchester are going to be stronger in the second half than the first half. And the only real negative we had was we expect EDC pricing to be lower in the second half than the first half.

Richard O'Reilly

That was -- in general, all those are just adding up to be on the plus side now versus -- okay, versus...

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

That's correct.

Richard O'Reilly

Okay, fine. Okay, because I don't know if you gave first quarter guidance in January or not, so I don't know the first quarter.

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

We have not given any quarterly guidance for the year. Our guidance was $1 billion plus or minus 5%.

Richard O'Reilly

Okay, fine. And now what you're giving us for the second quarter in here.

Operator

And as we have no more questions, I would like to return the call to John Fischer for any closing remarks.

John E. Fischer - *Olin Corporation - Chairman, CEO and President*

Yes, thank you for joining us today, and we look forward to talking to you in 90 days about our second quarter results. Thank you.

Operator

Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.
