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Olin Corp. (OLN)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Olin Corporation First Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Larry Kromidas, Director of Investor Relations. Please go ahead.

Larry P. Kromidas

Director-Investor Relations & Assistant Treasurer, Olin Corp.

Thank you, Nicole. Good morning, everyone. Before we begin this morning, 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 from our projections are described, without limitations, in the Risk Factors section of our most recent Form 10-K and in yesterday's press release.

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 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, Epoxy and 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 Financial Officer.

Now, I would like

to turn the call over to John Fischer, John?

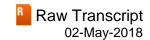
John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

Thank you, Larry. Good morning, and thank you for joining us today. During this morning's call, I will begin by highlighting four key takeaways from Olin's first quarter, then I will describe our improving outlook for 2018, followed by a more detailed discussion of each of our business segments.

Let's turn to slide 3. During the first quarter and into April, Olin successfully completed the most significant of our 2018 planned maintenance turnarounds. Our first quarter 2018 results included approximately \$92 million of planned maintenance turnaround costs to Chlor Alkali planned maintenance turnarounds at Freeport, Texas and Plaquemine, Louisiana that began in the first quarter were completed on schedule in April.

In addition, the planned maintenance turnaround at McIntosh, Alabama that began a couple of weeks ago was also completed by the end of April. The Freeport Texas Epoxy planned maintenance turnaround that began in February was also completed in April. This two-month Epoxy turnaround was last performed six years ago.



Included in the slides in the appendix of this presentation are the details of our actual and forecasted maintenance turnaround costs by quarter and by business segment. Overall, we continue to forecast that full-year turnaround costs will be approximately \$30 million lower than full year 2017 costs.

Also during the first quarter of 2018, we continue to experience a positive pricing environment for the majority of our chemical portfolio. Our first quarter 2018 caustic soda pricing improved approximately 40% year-over-year and approximately 10% sequentially. During the first quarter, the domestic caustic soda contract price indices increased \$55 per ton, while caustic soda export price indices fully recovered from the January decline that we discussed in early February.

The April domestic contract

price indices increased an additional \$35 per ton while spot export prices decreased \$40 per ton at the low-end but increased \$10 at the high end of the range. These index pricing changes will be reflected in our pricing on a 30- to 90-day lag.

During the first quarter, export volumes accounted for approximately 24% of caustic soda sales. In addition to caustic soda price increases, we realized first quarter price increases in chlorine and most chlorine-derivative products. While chlorine indices did not increase during the first quarter, the April chlorine price indices increased \$15 per ton which will be realized in our pricing, primarily on a one quarter lag.

Hydrochloric acid prices have more than doubled from this time last year and increased approximately 25% in the first quarter sequentially on strong demand. Ethylene dichloride pricing was lower than the first quarter of 2017, but improved sequentially and exceeded our expectations for the first quarter.

Pricing for liquid epoxy resin also improved both year-over-year and sequentially. Published liquid epoxy resin price indices increased 21% from \$1.32 to a \$1.60 per pound in North America and 27% to €2,800 per metric ton in Europe during the quarter. Trade publications also reported that April liquid epoxy resin prices have improved at additional \$0.09 per pound in North America and €150 per metric ton in Europe. Demand remains strong for epoxy products.

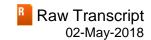
In the Winchester business, we experienced lower commercial demand and a less favorable product mix than we had anticipated, a difficult pricing environment and higher commodity material costs. Given these factors which have continued early into the second quarter, we no longer believe that the Winchester

2018 segment earnings will improve over full-year 2017 results.

Finally, during April, Olin's board of directors approved a share repurchase program for up to \$500 million of common stock. Because of the Dow Chlorine Products acquisition and the rules governing a Reverse Morris Trust transaction, Olin was effectively prohibited from repurchasing stock through October of 2017.

As some of you may recall, Olin had an active share repurchase program from 2011 to 2014. While debt reduction remains our top priority for free cash flow generation, we expect to begin to opportunistically repurchase shares with the goal of offsetting dilution.

Before going into more detail on the business segments, I would like to update you on our outlook for 2018 which is on slide 4. We continue to remain encouraged by the supply-and-demand dynamics for both the Chlor Alkali



Products and Vinyls business and the Epoxy business. We continue to expect both Chlor Alkali Products and Vinyls and Epoxy earnings to improve significantly in 2018 compared to 2017.

As I mentioned earlier, we no longer believe Winchester results will improve during 2018. We are reiterating our full-year 2018 forecast for adjusted EBITDA of \$1.25 billion, with upside opportunities and downside risks of approximately 5%. With the favorable pricing forecast, we believe that there is more upside opportunity than downside risk.

Now, turning to the business segments, beginning with Chlor Alkali Products and Vinyls on slide 5. First quarter 2018 Chlor Alkali Products and Vinyls adjusted EBITDA of \$244.2 million improved compared to the first quarter of 2017, primarily due to higher pricing for caustic soda, chlorine, and other chlorine

derivatives, and lower ethylene costs. These items were partially offset by lower volumes and lower ethylene dichloride pricing.

During the first quarter, approximately 40% of our Chlor Alkali capacity was subject to the planned maintenance turnarounds. The Chlor Alkali Products and Vinyls business is forecast to significantly improve in the second quarter of 2018 from the second quarter 2017 driven by higher caustic soda, chlorine and chlorine derivatives pricing, and lower ethylene costs. Second quarter planned maintenance turnaround costs are also expected to be significantly lower year-over-year.

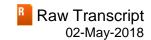
Olin continues to maintain its positive long-term view of caustic soda pricing. This is summarized on slide 6. In 2018, we expect North American caustic soda exports to once again reach record levels. A couple of recent facts, in 2017, caustic soda exports from the United States increased approximately 14% of a record 2016 volume. Exports in 2017 to Australia increased approximately 38% from 2016 levels. And exports in 2017 to Brazil have continued to increase with improved alumina and pulp and paper demand.

At the same time, caustic soda exports from both Europe and China continue to trend down while caustic soda import into Europe continue to trend up. The combination of the closure of the mercury-based Chlor Alkali plants in Europe and no material Chlor Alkali capacity additions expected in at least the next three years reinforces our view.

Let us now move to the performance of our Epoxy segment, which is on slide 7. First quarter 2018 Epoxy adjusted EBITDA of \$4.6 million was impacted by approximately \$45 million of planned maintenance turnaround costs at our largest epoxy production facility in Freeport, Texas. As I said earlier, this once-in-every-six-year turnaround has been completed. Volumes during the first quarter of 2018 were lower than the first quarter of 2017 due to this planned maintenance turnaround.

As we look ahead into the second quarter of 2018, we project epoxy product pricing to be higher both sequentially and higher than the second quarter of 2017. We also project that raw material costs, primarily benzene and propylene, will be higher in the second quarter of 2018 as compared to the second quarter of 2017. This, combined with lower maintenance turnaround costs, is expected to result in a significant sequential improvement in adjusted EBITDA in the second quarter compared to the first quarter. We continue to expect the epoxy business to improve meaningfully in 2018 over 2017. Overall, demand and product pricing continue to be strong.

We've included two new epoxy slides to illustrate product pricing and raw material input pricing trends. On slide 8, we show liquid epoxy resin pricing over the past 28 months for the United States, Europe and Asia. As you can see, pricing in all three regions has improved since the beginning of 2016. Current supply and demand



fundamentals have resulted in tight market conditions. Forecasted demand growth for our products is between 3% and 5% annually depending on the geographic location and the application.

As I mentioned earlier, we have already seen significant improvement in pricing which began in 2017. A portion of these price increases have been necessary to recover higher raw material costs primarily benzene and propylene. The additional epoxy slide is located in the appendix of today's slide deck. The slide summarizes benzene and propylene pricing in the United States and Europe for the past 28 months.

Now let's move on to the Winchester business which is summarized on slide 9. In Winchester's current business mix, commercial ammunition sales account for approximately two-thirds of Winchester's revenue. Military, law enforcement and industrial sales account for the remaining one-third. The lower level of commercial ammunition demand has resulted in pressure on commercial ammunition selling prices in spite of higher commodity costs and other material costs.

In the first quarter of 2018, on a year-over-year basis, commodity and other material costs increased \$7 million. Over the last 12 months, commodity and other material costs have increased approximately \$18 million. Through the first quarter of 2018, our efforts to recover the higher commodity metal prices through selling price increases have not been successful. In addition to the higher commodity cost headwinds, our product mix in the first quarter of this year was less favorable than the last – the first quarter of 2017.

In spite of the weakness in Winchester, we are pleased with the progress of the company. During the first four months of 2018, the overall price trends across our chemical businesses have improved. We continue to believe that we are in a multi-year up cycling caustic soda as evidenced by the positive pricing momentum. We have also witnessed positive volume and price trends in both chlorine and other chlorine derivative products.

In addition, we have experienced positive volume and pricing movement in the epoxy business. These will all support the forecast of a \$300 million increase in adjusted EBITDA in 2018 as compared to 2017. The continuation of these trends beyond 2018 makes the adjusted EBITDA of \$1.5 billion we described a couple of years ago as achievable in the next one to two years.

Now, I'd like to turn the call over to Todd Slater. Todd?

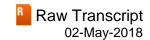
Todd A. Slater

Chief Financial Officer & Vice President, Olin Corp.

Thanks, John. Let's turn to our 2018 cash flow forecast, which is on slide 10. We expect to generate \$450 million of free cash flow before dividend payments. Our expectation is that by the end of 2018, the combination of debt reduction and EBITDA growth will reduce the net debt to EBITDA leverage ratio to the 2.5 times range.

During the first quarter, we prepaid approximately \$60 million of debt. Starting with the midpoint of our full year adjusted EBITDA forecast of \$1.25 billion on the far left of the waterfall chart, we deduct \$50 million of estimated tax payments, which primarily reflect income tax payments made to foreign jurisdictions in 2018. We are forecasting our cash tax rate to be in the 10% to 15% range for the year. Since 2015, Olin has not been a U.S. federal tax payer because of the utilization of net operating loss carryforwards, primarily arising out of cost associated with the acquisition in 2015. Because of tax credit carryforwards, we are not expected to be a U.S. federal taxpayer in 2018.

While we are continuing to analyze the full impact of the Tax Cuts and Job Acts of 2017, the cash tax benefit to Olin for the changes in the tax law is minimal in 2018 due to the tax credit carryforwards. We do expect the new



tax law to provide cash tax benefit to Olin beginning in 2019. The new tax law is currently estimated to reduce our cash tax rate for 2019 and beyond to the 15% to 20% range.

This translates into an estimated and a reduction in cash taxes of approximately \$75 million. Column 3 reflects the midpoint of our current forecast of capital spending of \$400 million which includes annual maintenance capital spending of between \$225 million and \$275 million and the investment associated with our information technology project of approximately \$100 million.

During 2017, we began a multiyear project to implement a new enterprise resource planning, manufacturing, and engineering systems across the heritage Olin and the acquired Dow chlorine products businesses. The project includes the required information technology infrastructure. The objective of the project is to standardize business processes with the objective of maximizing cost effectiveness, efficiency and control over our global chemical operations. The project is anticipated to be completed during 2020. When completed, we expect the IT project to provide annual cost savings of approximately \$50 million. Total capital spending for this multiyear IT project is forecast to be \$250 million and the associated expenses are forecast to be \$100 million.

In the first quarter, we spent \$10 million of capital and \$6.5 million of expenses associated with this project. We are forecasting that for the full year 2018, we will spend approximately \$100 million of capital, as I previously mentioned, and approximately \$50 million dollars of expenses associated with this project. The IT project expenses have been included as an add-back to our adjusted EBITDA. The add-back of these incremental expenses will continue through the completion of the IT project.

Now turning to the fourth column, we were expecting working capital to be a used of cash in 2018 of approximately \$50 million. The estimated increase in working capital is primarily due to higher selling prices and inventory costs associated with hydrocarbons in 2018. In the next column, one-time items of approximately \$60 million include integration, cash restructuring costs and the \$8 million business interruption insurance recovery. Included here is the approximately \$50 million of the expense portion of the IT project that I just spoke about.

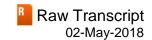
The next column represents an estimate of interest expense. We have approximately 20% of our debt at variable interest rates after the debt refinancing we completed in January and we are forecasting 2018 interest rates will be higher than those we experienced in 2017. In the far right column, we are forecasting \$316 million of free cash flow after paying our normal quarterly dividends, totaling approximately \$134 million for the year.

While debt reduction remains our top priority for free cash flow generation, we will begin an opportunistic share repurchase program with the goal of offsetting dilution. Finally, on Thursday, April 26, Olin's board of directors declared a dividend of \$0.20 on each share of Olin common stock. The dividend is payable on June 11, 2018 to shareholders of record at the close of business on May 10, 2018. This is the 366th consecutive quarterly dividend to be paid by the company.

Operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Frank Mitsch of Wells Fargo Securities. Please go ahead. Jacob Hughes Hey. Good morning. This is Jacob Hughes on for Frank. I just wanted to get your thoughts. There's been several disruptions over the past couple of months from Rusal and the Alunorte outage, which looks like it's going be off line for up to six months. Could you talk about your outlook for caustic and any impact that has to your full-year EBITDA guidance? I'll address both of those. The Alunorte, I think both of those, generally speaking - Alunorte has happened; Rusal hasn't happened yet – have had the effect of just causing trade flows to be adjusted, more than anything else. I think in the Alunorte case, we're talking about a very small quantity of caustic and an 80 million ton market. And I would characterize we expect that the Rusal event, if it occurs, is going to have less impact because of the delay than it would have had otherwise because it just occurred quickly. But again, the total volume there isn't big enough to offset an 80-million-ton market. And it will adjust some trade flows – I think Rusal will – there will be more supply from Europe, and then Europe will import more, and I think at the end of the day it will all wash out. So I don't really - we don't really believe either of those are going to materially affect caustic pricing going forward. Jacob Hughes Okay. And then on your current – given your current leverage profile, can you walk through your thinking on the buyback versus more opportunistic debt pay-down and your timeframe you envision in executing the program? We believe that based on our outlook, we have - keeping in mind that debt reduction still remains our top priority, we believe a vehicle to opportunistically repurchase shares to offset dilution is important for the shareholders. And that was our thinking. Jacob Hughes Okay. Thank you.



Operator: Our next question comes from Arun Viswanathan of RBC Capital Markets. Please go ahead.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Great. Thank you. How are you guys doing? First off, I guess, I just wanted to understand the potential dynamics in your statement about more upside opportunities. How should we think about that \$35 [ph] inc (22:33) on caustic and the \$15 [ph] inc (22:39) on chlorine to your profitability for 2018 and 2019? Are you experiencing significant inflation that would offset those amounts, or should we just use the typical kind of \$10 equals \$30 million annual adjusted EBITDA uplift? Thanks.

Д

I think you should use the typical \$10 is \$30 million of uplift, keeping in mind that on the caustic side it's anywhere from 30 to 90 days. In terms of implementation on an acquiring side, it's typically 90 days.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Okay. And I guess as a follow-up, are there any of your contracts that are significantly behind the index, and – or said it in different way, we've seen a couple of hundred million dollars go into the index over the last couple of years. So if we take 50% of that, maybe there's 150 implied increase on your margins. Have you seen that kind of improvement in your ECU per ton margin or is there something else that is holding that back?

James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.



This is Jim Varilek. From a contractual standpoint, we continue to make improvements on that. You should assume that we now have improved the percentage of realization in the index movement. It's now in the 50% to 70% range. And so, we continue to improve the contract, so we're seeing an acceleration of the impact on prices versus a year ago.

A

And I would also just caution you, when you look at Q1, we talked about at one point during the quarter, 40% of our Chlor Alkali capacity was offline due to planned maintenance. So, from a volume perspective, this is going – Q1 will be the weakest quarter as will – as we've said earlier, the entire quarter will be the weakest of the year. This will be the weakest for Chlor Alkali.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

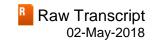


Great. And just lastly on that point then, given that there were some outages in Q1 and you guys are ramping back up here in Q2 and typically, Chlor Alkali will go up anyway. Do you expect prices to kind of moderate as we go through the year? And if not, what will be the drivers for continued support of higher pricing?

James A. Varilek

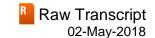
Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

Δ



Arun, this is Jim again. I would say that the fundamentals of the market haven't changed. We still see very good industrial production; we still see GDPs that are looking good; we still see and anticipate as John said, record exports out of the U.S. Gulf Coast. So, what you're seeing through the first quarter and you see in the first month of the second quarter is the momentum stemming from those fundamentals.

So, we are – we continue to see that and we would expect that to continue for the next, actually for the next several years with those trends being positive.
Arun Viswanathan Analyst, RBC Capital Markets LLC
Okay. Thanks.
Operator: Our next question comes from Don Carson of Susquehanna. Please go ahead.
Emily Wagner Analyst, Susquehanna Financial Group LLLP
Good morning, this is Emily Wagner on for Don. I guess following up on the guidance aspect. Why only show an upside bias to guidance when caustic chlorine and EDC and epoxy price trends have been so much better than the initial guidance given in fourth quarter?
A
Emily, we would agree with what you said about the pricing trends. There is downside as we mentioned in Winchester, and we're always cautious about raw material costs especially in the epoxy business with benzene and propylene which have been very volatile as you know over the last 24 to 30 months, as well as EDC pricing. And if you remember what happened last year in the second half of the year, EDC pricing essentially collapsed. So at this moment, I would say we feel more comfortable saying we believe there is more upside than downside, rather than just raising our guidance.
Emily Wagner Analyst, Susquehanna Financial Group LLLP
Understood okay. And then on proxy, I know on the price chart you showed the \$0.09 increase in the U.S. and did you realize that already, and how should we think about pricing lags in the epoxy space?
Pat D. Dawson Executive Vice President & President, Epoxy and International, Olin Corp.
Yeah, Emily. This is Pat Dawson. I think the short answer to that is yes, we are seeing that increase and we continue to get good momentum on that increase as we go into May here as well. Thank you.
Operator: Our next question comes from Aleksey Yefremov of Nomura. Please go ahead.
Aleksey Yefremov Analyst, Nomura Instinet



Good morning, everyone. Thank you. Just to follow up on epoxy, how should we think about your sensitivity to these changes in benchmark prices, maybe similar to the way you describe caustic? Is it 75% of the benchmark, 50%?

А

Aleksey, we have not given you a specific guidance associated with that. But what we have now started to provide is the changes in those. The key to remember, though, is that over the last year, benzene and propylene have continued to increase. As a matter of fact, our costs for the first quarter compared to the first quarter of last year were up over \$20 million in benzene and propylene costs. So a lot of our pricing improvement as we said earlier has really been to offset increased raw material costs.

Aleksey Yefremov

Analyst, Nomura Instinet

And maybe just to follow up on that again, in the second quarter as you look at your increase in prices, are those larger than increases in raw materials or your cash margins increasing in Q2 compared to Q1?

А

Based on the current prices for benzene and propylene, we would expand margins in the second quarter.

Aleksey Yefremov



Analyst, Nomura Instinet

Thank you. And a follow up on EDC, there were recently – there was recently a spike in EDC prices in China. Does this give you hope that your forecast for lower EDC prices in the second quarter is maybe conservative or do you not see it as sustainable?

James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

This is Jim. Obviously, we're pleased to see the movement in EDC prices. And EDC is kind of a – it's a global market and a lot of those – the spike actually had to do with some other issues in terms of Latin America, Brazil and so forth that helped push the prices up. We are moving into a strong season in terms of replenishment and so forth, first quarter, second quarter.

So we're anticipating momentum in the second quarter. The third and fourth quarter, as John said, is always a challenging time in EDC, as you go to off season in monsoon. That's why we're cautious about EDC for the remainder of the year. I think the IHS projection has 2018 EDC prices to be slightly lower on an annual basis than 2017.

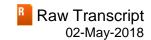
Aleksey Yefremov

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Thank you.

Analyst, Nomura Instinet

Operator: Our next question comes from Neel Kumar of Morgan Stanley. Please go ahead.



Neel Kumar

Analyst, Morgan Stanley & Co. LLC

Hi. Good morning. You mentioned in your prepared remarks the \$1.5 billion of adjusted EBITDA is more of a near-term target in the next one, two years rather than a mid-cycle target. Is your new estimate of mid-cycle EBITDA now higher than \$1.5 billion?

A

We have not adjusted the mid-cycle target. We're just commenting on achieving – we believe \$1.5 billion is achievable in the next one to two years.

Todd A. Slater

Chief Financial Officer & Vice President, Olin Corp.

Neel, this is Todd. I think there has been some confusion at times by investors or other folks. When we talk about mid-cycle, we are not remotely talking about peak. We're talking about sort of the middle of the cycle where there's still plenty of room to run above that.

And I think maybe it's a nomenclature item for how we're speaking versus how some other people may interpret that. So, yeah, I think we're the number of \$1.5 billion is by no means an end. It's just an item that we will continue to improve from.

Neel Kumar

Analyst, Morgan Stanley & Co. LLC



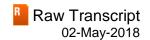
Great. That's very helpful. And then a question on how you're thinking about your current portfolio. Competitor viewers in epoxies put up some assets for sale. Is that something that you would consider? And also, has there been any change in how you're thinking about Winchester in light of recent industry headwinds and changes in the competitive landscape?

А

We're aware of assets that are for sale in the Epoxy business. And I would say, as a general comment, we would always be interested. I think as a practical matter, the assets that are for sale are not going to be available to us because of anti-trust issues. I would answer the Winchester question the same way we always have answered it, which is it really represents a value question, and is there a methodology for Olin to separate the Winchester business from the Olin portfolio and create value?

We are always faced with the fact that we've owned the business since 1892. It has an extremely low tax basis essentially equal to its working capital. So, any straight sale for cash would have to have a pretty generous multiple on it. And if you look at similar properties to that today in the marketplace, you're not going to get that. That also impacts your ability to do any kind of tax-free spin. And I would say, again, if you look at comparables today, you would spin it off. It would trade worse than it's trading in Olin today.

So, we're aware of the issue. We've been focused on it. I've been looking at it for 15 years and it really just becomes a value question. That said, even with its weaker results, it's a significant cash generator for Olin and I would say, it is a business we understand. It is a business that we can continue to work hard at improving.



Neel Kumar

Analyst, Morgan Stanley & Co. LLC

Okay. Great. And then I guess, just one last follow-up on the buyback. When you say that you're going to be opportunistic to offset dilution, are you speaking about the 2018 long-term incentive plan shares issues from that? And then, do you also see yourself being more aggressive with buybacks at levels these shares are undervalued at?

A

We were not addressing specifically the 2018 plan. Those shares actually haven't been issued yet. We were just addressing the normal

dilution that occurs from existing compensation plans whether they be for management, employees or directors; and I think we would just say we would look at these opportunities opportunistically.

Neel Kumar

Analyst, Morgan Stanley & Co. LLC

Okay. All right. Thank you.

Operator: Our next question comes from Jeff Zekauskas of JPMorgan. Please go ahead.

Jeffrey Zekauskas

Thanks very much. In your slides, you present a favorable supply/demand balance for caustic soda over a longer period of time, and you talk about positive pricing. In epoxies, what you do is you simply have a price chart. Do you have a view of the supply/demand balance in epoxies over the next two or three years or a view as to whether supply/demand balances will tighten or loosen or are you agnostic and you don't have a view?

Pat D. Dawson

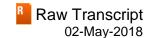
A

Executive Vice President & President, Epoxy and International, Olin Corp.

Yeah. Jeff, this is Pat. Listen, first of all, you've got to remember that the market contracted for epoxy resin in 2016 versus 2015, and that was fairly sluggish into 2017. We've just started to see positive growth again in this 3% to 5% range that we talked about in our remarks, and I think that's very positive. Also, I think from a supply/demand standpoint, the fundamentals are improving. No question about it, while the overcapacity that was built in this industry was built in China as most of you know.

And so that capacity has been working itself off. There's also been some environmental regulations that I think has constrained some of that capacity. Although we don't have a clear vision of that, it definitely has been impacting supply/demand

fundamentals that are much more favorable here. And we see those supply/demand fundamentals continuing to be favorable in that we don't see anyone who's going out and announce any new meaningful capacity here going forward. So that's our view of it right now.



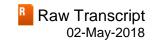
Just for my follow-up, were 2017 and 2018 years of unusually high turnaround activity, in your opinion? For Olin, yes. There was a – we have two large integrated epoxy plants, one in Europe, one in the United States. In the fourth – third and fourth quarters of 2017, the European operations underwent their once-every-six-year turnaround, and then in the first quarter or into the second quarter of this year, the U.S. assets underwent that. So we would expect if you look forward, one year, [ph] Jeff (36:25) that 2019 will be a much lower turnaround year in terms of dollar spent and volumes of production lost for the Epoxy business. Okay. Thank you very much. Operator: Our next question comes from Steve Byrne of Bank of America. Please go ahead. Stephen Byrne Analyst, Bank of America Merrill Lynch Yes. Thank you. What is the outlook for the Shintech contract that you have via your tolling agreement with Dow? And could this change post the start-up of their new ethylene cracker? James A. Varilek Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp. We would not expect that. This is Jim. We wouldn't expect anything to change. We have a long-term relationship with Shintech, and we'll – we expect to have that well into the next decade. Stephen Byrne Analyst, Bank of America Merrill Lynch Okay. Thank you. And what would you say is structurally driving the weakness in ethylene dichloride? Is there a shrinking merchant market that leads to that weakness, or is it ethylene-related? How do you look at that? Well, if you look at the slide, you see that EDC is very volatile. It moves up and down. It has a number of factors.

Supply/demand obviously drives it. Right now, it's – I would say that the weakness has been driven by the success that's been achieved on the caustic side of things where you have incremental players that have the

ability to move EDC or chlorine into EDC in order to liberate the caustic has been a factor



Analyst, Bank of America Merrill Lynch



Having said that, there's only a certain amount of that incremental EDC that's going to be able to come on line. And so we do expect that over the period of the next few years that we do anticipate improving fundamentals on EDC. Stephen Byrne

And just lastly, any capacity expansion or efficiency improvements with this latest round of turnarounds?

One always expects to get operating improvements when you spend this kind of money to do a turnaround that's done once every six years. I mean, coming out of the turnaround that we had in Europe on the Epoxy, we had best production we've had in many years. We expect to see the same thing in Freeport.

Stephen Byrne

Analyst, Bank of America Merrill Lynch

Thank you.

Operator: Our next question comes from Jim Sheehan of SunTrust. Please go ahead.

James Sheehan

Thanks for taking my question. Could you discuss the various puts and takes that you see for the second quarter EBITDA bridge?

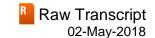
Well, I think the biggest single bridge point is that we're going to have significantly less turnaround cost and significantly lower loss volumes from production in both Chlor Alkali and Epoxy. The other big bridge going – is the positive pricing trend moving forward. We – as we said in both discussions about Chlor Alkali and Epoxy, we expect pricing to be better second quarter versus first quarter.

James Sheehan

And what are your current views on the Epoxy business for 2019?

Pat D. Dawson Executive Vice President & President, Epoxy and International, Olin Corp.

Yeah. I think – yes, this is Pat. I think, again, back to the fundamentals, I think the fundamentals bode well from a demand standpoint with what we're seeing, especially with oil and gas improving in North America. Europe continued to consume 3%, 4% more epoxy resin over the past few years, and we really don't see that changing with a lot of the infrastructure building in that part of the world.



I think one of the unknowns is China, and whether or not some of these environmental crackdowns will put limitations on some of the demand in the epoxy market from that standpoint. It's really hard to tell at this point in time. But basically, the fundamentals should continue to improve. Yeah. The other thing we answered in a prior question was maintenance outage costs in epoxy in 2019 should be significantly lower than they were in 2018. James Sheehan And related to that, how much lower will your total plant maintenance cost be in 2019? Could you give us some more color on that? I would tell you qualitatively, we expect them to be lower. We have not, at this juncture, given out anything specific on that or any other element of 2019 other than the broad comment that we think \$1.5 billion is achievable in the next one to two years. James Sheehan Thank you. Operator: Our next question comes from John Roberts of UBS. Please go ahead. John Roberts Analyst, UBS Securities LLC Hi, guys. And, Todd and Larry, looking forward to seeing you on May 21. Thanks for the new epoxy slide in the appendix with the propylene and benzene costs. Would you be able to add an ethylene slide as well or does your price from Dow vary too much from the IHS benchmark for you to disclose that? I would say that the price from Dow makes a slide somewhat unnecessary and competitively very sensitive. Todd A. Slater Chief Financial Officer & Vice President, Olin Corp. John, this is Todd. You should think of - we now have virtually ethylene at producer economics. So, really you're thinking about changes in ethane. Because the changes in the spot ethylene or those type of things are no longer meaningful after the end of September of 2017, we basically went to cost-based ethylene.



John Roberts

Analyst, UBS Securities LLC

Okay. And then secondly on Winchester, you've got one competitor in bankruptcy and you've got a second competitor that just announced separating its gun business from its ammo operations. Do we have to wait for the post-bankruptcy and – or the separation that the other competitor kind of happened until normalized competitive behavior comes back to the marketplace?

Д

I'm not sure we're the right people to answer that question, John. I think that the Remington bankruptcy appears to be proceeding very quickly. So, I would hope that gets resolved very shortly. I think if you look at what this is trying to do, I would – and the comments they made around ammo, I would hope their behavior gets normal quick. I mean, they sort of said that.

John Roberts

Analyst, UBS Securities LLC

All right. Thank you very much.

Operator: Our next question comes from Kevin McCarthy of Vertical Research Partners. Please go ahead.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Yes. Good morning. As you look across the businesses where you compete, do you anticipate the need to expand capacity in any of those markets over the next couple of years? Trying to get a feel for whether organic reinvestment will be any sort of meaningful call on cash as we think about your capital deployment priorities and the new repurchase plan.

А

I think, Kevin, in the near term which I would call one to two years, we will have a greater focus on investing for reliability and investing to optimize the output of – or the use of our chlorine to ensure the highest operating rates that we can generate.

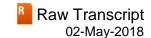
Kevin W. McCarthy

Analyst, Vertical Research Partners LLC



Okay. And then, a second question, if I may, just to come back to our epoxies, I appreciate the additional slides. Why in your judgment have prices increased or inflected over the past several months? Is it related to operating rates?

And if so, what is your assessment of global operating rate for base liquid resin? Have you expected that to trend? And can you also comment on your typical geographic mix within Epoxy business? So it's a few different questions, apologies but I just would like to understand better the outlook there.



A

Yeah. As it relates to the geography, I think if you look at the 10-Q which will be filed later today, there will actually be segment information by geography, and what you'll see is that the larger portion of our sales actually are in Europe in the Epoxy business, North America in second and then others being third which is either Asia or South America.

I'll let Pat talk about the inflection points.

Pat D. Dawson

Executive Vice President & President, Epoxy and International, Olin Corp.

Yeah, Kevin. I think the graph that we included here, you'll see the big inflection in Asia, liquid epoxy resin. And that's where all the overcapacity was really built in that 2006 through 2012 type timeframe.

So one factor I've already mentioned before that I think caused that inflection point was around what happened in China. And we don't have full transparency there on the environmental regulations that have definitely constricted restrain Epicor hydrogen capacity and liquid epoxy resin capacity. And so I think China was a big inflection point.

Of course, when you see the price, the way it shot up from September 2017 until the beginning of this year, it did create an arbitrage where people moved for liquid epoxy resin into China, which was a pretty major event. And I think the ongoing fundamentals is if you look outside of China, supply/demand fundamentals are very good there on liquid epoxy resin. And there hasn't been a meaningful capacity built because the reinvestment economics weren't there. So I think you're seeing a fairly typical commodity cycle of supply working its way off, combined with some environmental issues in China, and that has really propelled the liquid epoxy resin prices.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

And lastly if I may, just coming back to the \$1.5 billion EBITDA level that you've put forth over the near to medium term, let's say, what sort of level of profitability in Epoxy might we expect to be embedded in that sort of level? Can you provide some sort of notion of what you view as a mid-cycle or normal level of profitability here, coming off of five, or six red quarters?

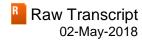
If you went back to the February 20, 2016 Investor Meeting where we talked about what our long-term goal was, which was \$1.5 billion, we had a chart that showed epoxy on the upswing over a period of years. I think if you actually tried to map out the chart, it suggested that epoxy would be something in the \$250 million a year of EBITDA range.

Kevin W. McCarthy

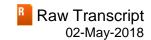
Analyst, Vertical Research Partners LLC

And that's still valid.

Д



We believe so, yes.	
Operator: Thank you so much.	
Operator: Our next question comes from Eric Petrie of Citi. Please go ahead.	
Eric B. Petrie Analyst, Citigroup Global Markets, Inc.	Q
Hi, good morning.	
	A
Morning.	
Eric B. Petrie Analyst, Citigroup Global Markets, Inc.	Q
Could you give us an update on Asia or China demand specifically for caustic soda selling the [indiscernible] (48:24) winter production curtailments? And I think it's been a little softer dem prices kind of slipped below the \$600 per ton mark.	•
	A
Sure. This is Jim. What you saw in China prior to the curtailments, the winter curtailments are place. We actually saw a run up in prices, and the prices went well into the \$600 range and time. And so, what you've seen since then is really just a kind of a return or a calibration back	peaked at that point in
So there has been some movement in pricing downward. But we don't see that as a long-ter prior to the curtailment. And then following up with the curtailment, you saw some settling our Nonetheless, we don't see the dynamics in China changing. We're still seeing exports of cau China continuing to decline, and they've been on a four- to five-year decline. So, I wouldn't reother than just some normal movement around what is actually a very high number.	t of the prices. ustic soda out of
Eric B. Petrie Analyst, Citigroup Global Markets, Inc.	Q
Okay. And then, what's typically a healthy level of gap between China prices and U.S. Gulf Cmillion mark in April?	Coast, the \$795
	A
I guess that – I don't know that there's a healthy GAAP. There're GAAPs that occurred that a movements of the market and those dynamics will drive that. So, I don't know that there's a, healthy GAAP. It's a global market and product moves to wherever the highest prices are. So answer for you on a GAAP number.	what you consider, a



Eric B. Petrie Analyst, Citigroup Global Markets, Inc. Okay. Lastly, has the mix of your trade flows changed in either EDC or caustic soda based on the proposed China tariffs? No, not at all. Eric B. Petrie Analyst, Citigroup Global Markets, Inc. Thank you. Operator: Our next question comes from Matthew Blair of Tudor, Pickering and Holt. Please go ahead. Matthew Blair Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Hey. Good morning. Want to come back to epoxy here, a few comments on strong demand. And in terms of geographies, I think you mentioned that the China looked pretty good. What about specific end markets, can you call out any particular areas where you're seeing a significant improvement? Pat D. Dawson Executive Vice President & President, Epoxy and International, Olin Corp. Matthew, this is Pat again. Epoxy – the biggest markets, of course, are your performance coding markets. So, if you follow the PPGs, the Sherwin-Williams, the Akzos, you get a pretty good idea about their demand. There's no question with both in Europe and North America, there's been a little bit of a slow start to the season with the wet cold weather, but those performance coatings are by far the biggest part of the Epoxy market. You get into electronic, electrical laminates which we participate in over in China. And so that's a major market. It continues to be very good for us and grows more than GDP. You get into the wind energy market and the windmill blades and adhesives is also a major market and of course automotive. So across most of those markets as I said earlier, the demand is between 3% and 5%. And much better than where it was in 2016 versus 2015 and in the first half of 2017.

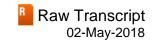
Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Sounds good. And then there's a couple of comments on just overcapacity in the industry. After you get done with the turnarounds, what kind of utilization rates are you running both your Europe and U.S. assets there?

We have not – we have not provided operating rate information for any of our assets, so we're not prepared to do that.

Matthew Blair Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.	Q
Okay. Thank you.	
Operator: Our next question comes from Dmitry Silversteyn of Longbow Resear	ch. Please go ahead.
Casey Mcdonald	Q
Hey. Actually, Casey in for Dmitry. When you look to the \$1.5 billion of EBITDA p Winchester improvement. Just wondering where you think that could come from vor maybe just pricing?	
	A
I don't think we actually	
mentioned Winchester improvement as a major thing. I think it's last on the list of Fundamentally, what we think is ultimately going to happen, and it was an earlier is that you're going to get balance between the commodity costs and the pricing e biggest single thing in the short run and our ability to continue to improve our ope	question about the competition, environment. And that will be the
Casey Mcdonald	Q
Okay. And just one more on the Chlor Alkali side. You mentioned that there's not additions, I think you said over the next three years. Is there any production or ful on that business just with all the production rationalizations?	
	A
Well, I think that goes to the conversation we had about a multiyear up cycle on c economy that grows at 2%, that suggests 2% caustic soda growth annually and n over time. And I would remind you that to add capacity, you actually have to have That suggests that the market's going to remain tight or potentially get tighter and move positively.	o new capacity being added increasing chlorine demand.
Casey Mcdonald	Q
Excellent. Thanks, guys.	
Operator: Our next question comes from Karl Blunden of Goldman Sachs. Pleas	se go ahead.
Karl Blunden	\cap



Hi, guys. Just a quick question on the pricing dynamic in epoxy. Prices are up quite nicely, but a lot of the different input costs for the coatings players are up, too. TiO2 is up year-over-year, oil looking to move up. Does that affect demand going forward or epoxy price is still low enough that it's not really a driver there?

А

I don't think those other factors are really a driver. I do think it adds to the overall momentum.

You have a basket of raw material that goes into the major coding houses going up right now. But there's really no adjacent impact here for me in those other raw materials on a passing.

Casey Mcdonald

Great. And then just a quick one on the balance sheet, here you've made progress. You're progressing with the agencies on the ratings front. What are the gating factors to moving further up in terms of ratings and edging up towards IG? And then, just for the overall debt target, should we think about the term loan coming out over time? What do you feel like the amount of debt you have now as appropriate? And deleveraging will be somewhat from the reduction, but primarily from EBITDA growth. How should we think about that?

A

I think you should think about it is that the metrics will continue to improve and they will continue to reflect both improvement in EBITDA and repayment of debt. We've commented in the past that when we target our debt to EBITDA ratio, we do it based on where we are in the cycle. We are obviously in and hopefully will continue to be in as a good part of the cycle. And we need to get, based on the historic volatility and cyclicality, we need to get that ratio down well to something in the 1.5% to 2% range. We believe to give us the cushion, when and if, the cycle turns that we stay in a good place.

We have always said that our objective is to run the company with investment grade credit metrics. Whether we get investment grade ratings or not is another element. That is not and has not been a strategy per se.

Casey Mcdonald

That's helpful. Thanks, guys.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to John Fischer for any closing remarks.

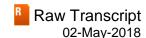
John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

Thank you for joining us today and we look forward to speaking to you about our second quarter results.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your line.





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