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OLN - Olin Corporation Conference Call To Discuss Acquisition of K. A. Steel Chemicals Inc

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OVERVIEW:

OLN reported that it has signed a definitive agreement to acquire K.A. Steel Chemicals Incorporated for $328m in cash. This purchase price contemplates cash free, debt free transaction subject to certain post closing adjustments.

CORPORATE PARTICIPANTS

Joseph Rupp *Olin Corporation - Chairman, President, and CEO*

John McIntosh *Olin Corporation - SVP, President, Operations*

John Fischer *Olin Corporation - SVP and CFO*

CONFERENCE CALL PARTICIPANTS

Edward Yang *Oppenheimer & Co. - Analyst*

Christopher Butler *Sidoti & Company - Analyst*

Dmitry Silversteyn *Longbow Research - Analyst*

Don Carson *Susquehanna Financial Group/SIG - Analyst*

Alex Yefremov *BofA Merrill Lynch - Analyst*

Gregg Goodnight *UBS - Analyst*

James Finnerty *Citigroup - Analyst*

Harry Mateer *Barclays Capital - Analyst*

Jeff Gates *Gates Capital Management - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Olin acquisition of K. A. Steel Chemicals Incorporated 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 Mr. Joseph Rupp, Chairman, President, and CEO. Please go ahead, sir.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

Good morning and thank you for joining us today. With me this morning are John Fischer, our Senior Vice President and Chief Financial Officer; John McIntosh, our Senior Vice President of Operations; and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations.

Before I begin discussing our proposed acquisition of KA Steel, I would like to remind you that Olin will release our second-quarter 2012 earnings on the evening of Monday, July 23, and we will hold a conference call at 10 AM Eastern time on Tuesday, July 24, to discuss those results.

This morning we announced that Olin had signed a definitive agreement to acquire K. A. Steel Chemicals Incorporated for $328 million in cash. This purchase price contemplates a cash free, debt-free transaction subject to certain post-closing adjustments. The structure of the transaction, using a Section 338(h)(10) election, is expected to result in a tax benefit to Olin of approximately $120 million over a 15-year period, which has a net present value of approximately $60 million.

The acquisition has been approved by both the Olin Board of Directors and the Board and shareholders of KA Steel. The transaction is expected to close by the end of the third quarter 2012 and is conditioned upon regulatory approval and customary closing conditions. The acquisition is expected to be immediately accretive to both earnings and cash flow.

The acquisition of KA Steel is an additional and exciting step in Olin's ongoing strategy of enhancing our commodity chemical business by, first, increasing the amount of our core chlor alkali capacity that can be sold as value-added products; and second, by increasing our profitability across the economic cycle.

KA Steel is a chemical distributor uniquely focused in caustic soda and bleach. The addition of KA Steel increases Olin's bleach capacity by approximately 20% and provides manufacturing locations, logistics, and access to customers in an expanded geographic region. KA Steel's geographic profile provides a strong platform to increase Olin's hydrochloric acid and potassium hydroxide sales.

KA Steel estimates that 40% to 45% of their customers also consume hydrochloric acid and potassium hydroxide. Today, KA Steel sells small quantities of potassium hydroxide and has historically been and maintains some infrastructure to distribute hydrochloric acid.

The combination of KA Steel's caustic soda distribution network with Olin's caustic soda business will provide opportunities to rationalize freight and other logistic costs as well as provide both companies with access to a different and a broader set of caustic soda customers.

Over the long run we believe this will improve both the distribution and the manufacturing businesses and enhance our cash flow in all parts of the chlor alkali cycle. KA Steel was founded in 1957 and has been managed by the two shareholders, Bob and Ken Steel, since 1980. We are pleased that both Bob and Ken have agreed to continue their KA Steel roles under Olin's ownership. We believe this will facilitate a smooth transition and allow the attributes of the distribution and manufacturing businesses to be optimized in a value-creating manner.

Today KA Steel is one of the largest caustic soda distributors in North America and is the largest manufacturer of bleach in the Midwestern United States. KA Steel operates 29 terminal sites, four of which have the capability to manufacture bleach. They also possess a significant transportation capability, including railcars, tractors, and tank trailers.

KA Steel's geographic profile, which is concentrated in the Midwestern United States, is a strong complement to Olin. And that is illustrated by the slides which we included as a part of our press release. The acquisition of KA will allow Olin to expand the reach for all of our chemical products.

In 2011 KA Steel generated revenues of $435 million, which reflects the sale of approximately 795,000 tons of caustic soda and 38 million gallons of bleach. KA Steel's 2011 adjusted EBITDA was approximately $31 million and over the four-year period 2008 to 2011, KA Steel's adjusted EBITDA has averaged $37 million.

During 2011 KA Steel fulfilled approximately 78,000 product orders while serving approximately 750 different customers. And as I just mentioned, access to a broader customer base was a key consideration for Olin in its efforts to acquire KA Steel.

We believe that as a result of this acquisition, we have the opportunity to realize at least $35 million of annualized synergies over the next three years, and $7 million to $15 million during the first full year of ownership. We're highly confident that the synergies will be realized.

The major categories -- three major categories are, first, the sale of other Olin-produced products, such as bleach, hydrochloric acid, and potassium hydroxide. KA Steel currently distributes or has distributed all three of these products, and in all cases, Olin has excess capacity. In these cases the expected benefits reflect not only higher sales volumes, but also improved capacity utilization in our chlor alkali manufacturing operations.

The second major area of synergy opportunity is in freight, logistics, and other cost rationalization. Both KA Steel and Olin have railcar and truck fleets as well as potentially redundant product storage terminals.

In addition, the combined Company will ship approximately 2.4 million tons of caustic soda annually and over 300 million gallons of bleach, which represents an opportunity to optimize freight and logistics costs.

And finally, both Olin and KA Steel ship caustic soda and bleach to customers nearer to a location of the other. More logical shipment patterns offer a significant cost improvement opportunity.

We intend to finance this transaction with a combination of existing cash on the balance sheet and the existing senior revolving credit agreement. After the closing, it is our intention to permanently finance a portion of the purchase price by issuing new senior notes.

It's important to mention that this acquisition will not impact the mercury cell technology conversion project in the high pure bleach facilities and the ongoing Centerfire relocation capital projects that are currently in progress.

We recognize that the decision to acquire a chemical distributor is a big step, and something of a departure for Olin, which has always been manufacturing focused. KA Steel, with a product line focused completely on products that Olin manufactures and sells, presents a unique opportunity that we believe will create significant value for our shareholders.

KA Steel has been a customer of Olin's for many years, and we know the management team well. The capabilities of KA Steel and Olin provide a strong complement to each other, and this acquisition is entirely consistent with the strategy of increasing the amount of our chlor alkali capacity that can be sold as value-added products and increase our profitability across the economic cycle.

Before we conclude, let me remind you that throughout this presentation we have made statements regarding our estimates of future performance. Clearly, these are forward-looking statements, and results could differ materially from those projected.

Some of the factors that could cause actual results to differ are described without limitations in the Risk Factors section of our most recent Form 10-K press release and in our first-quarter earnings release. A copy of today's transcript will be available on our website tomorrow under www.olin.com in the Investors section of the Calendar of Events. The earnings and press release and financial data and information are available under press release.

Operator, we are now ready and available to take questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Edward Yang, Oppenheimer.

Edward Yang - ***Oppenheimer & Co. - Analyst***

This looks like a pretty logical, nice acquisition, so congratulations.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

Thank you.

Edward Yang - ***Oppenheimer & Co. - Analyst***

Joe, you mentioned how the synergies are going to be divided up, roughly. I know in the past you had always looked for value-added places to find for a home for your chlorine and caustic molecules, both to reduce cyclicality, but get the premium, as well.

So of the $35 million in synergies, how much of that would be roughly on -- you mentioned the capacity utilization, but also getting that premium on the bleach and the hydrochloric acid versus freight and logistics?

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

Generally, the synergy area that has the greatest potential is the expansion of the bleach business into new geographic areas. And it is the bleach manufacturing capacities of both the businesses which will take -- will exceed, really, 20% of our ECU manufacturing capacity.

In addition to that, Edward, is that we also will then have the ability to address the hydrochloric acid market, which, as you know, is an opportunity -- and also to channel more of our potassium hydroxide.

Edward Yang - ***Oppenheimer & Co. - Analyst***

On the HCl market, on the burner grade side, you'd been getting some pretty nice premiums, $100, $200 type of range. Are you still getting that right now?

John McIntosh *- Olin Corporation - SVP, President, Operations*

This is John McIntosh. Yes, we are. The HCl market continues to be driven by demand that is related to mining, and related to the oil patch and natural gas exploration. So those premiums are still holding out, and we're still seeing the demand consistent with what we've seen in previous quarters.

Edward Yang *- Oppenheimer & Co. - Analyst*

And historically most of your distribution and manufacturing were centered on the East Coast and the West Coast, and the Midwest was kind of a blank spot for you. This changes this somewhat. Does this change your customer mix at all?

John McIntosh *- Olin Corporation - SVP, President, Operations*

It provides us, I think, more importantly with just another channel for us to take the products that we produce into the market. We have done business in the Midwest through distributors, and we'll continue to do that.

We have historically not had manufacturing assets that relied on moving product into that market and moving it through distributors. This just gives us an opportunity to be more efficient, to serve our customers better as we use that model with KA Steel being part of the Olin family.

Edward Yang *- Oppenheimer & Co. - Analyst*

And final question for me and I'll get back into queue, but could you just explain what the transaction structure is from a tax perspective? I wasn't -- I'm not sure where the tax benefit is coming from. Is that from an NOL standpoint, or just some sort of specific structure to minimize taxes?

John Fischer *- Olin Corporation - SVP and CFO*

Under the Section 338(h)(10), which both sides agreed to elect, Olin will be able to essentially depreciate or amortize for tax purposes the entire value of this purchase price. And we will go and allocate that purchase price to fixed assets to intangibles and then to goodwill. And we will amortize or depreciate those accordingly. And the difference between that and not electing that is the number we have quoted.

Operator

Christopher Butler, Sidoti and Company.

Christopher Butler *- Sidoti & Company - Analyst*

As we look at this business, can you talk to the cyclicality of a distribution business compared to your existing chlor alkali business, and how we should think of this marriage over a 10-year cycle, for instance?

John McIntosh *- Olin Corporation - SVP, President, Operations*

I think if you look at a distribution business, you're not immune from cyclicality. But a distribution business, I think, historically has been less cyclical and has a broader and larger set of customers that allow some offset to that.

So we're comfortable that this will help us -- will help the chlor alkali business, which has historically been cyclical, be less so.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

The other point that we would make is a big component of this is going into bleach. And bleach, as you know, treats water, and water has to be treated in spite of what the economic cycles are.

Christopher Butler - ***Sidoti & Company - Analyst***

And if we're looking at the acquired business, what is the D&A component to this?

John Fischer - ***Olin Corporation - SVP and CFO***

The D&A component of KA Steel on its own is very small. It's essentially an asset-light business, and it's probably less than 10% of their EBITDA.

Christopher Butler - ***Sidoti & Company - Analyst***

And if we're looking at Olin's cash flow for 2013, one of the things that has been talked about is once all the CapEx starts to wind up, that you'd start to look for possibility of returning cash to shareholders. Does this change that strategy at all? Does this make debt reduction more of an impetus for 2013? Or does everything remain about the same?

John Fischer - ***Olin Corporation - SVP and CFO***

I think we've always said that our top priority for the use of cash was how do we expand the business, and improve shareholder value that way. So I think this is entirely consistent with that. I don't think when we look at 2013 it changes our view of what capital spending will be in the core business, and I don't think from the standpoint of our dividend it has any change -- any impact on that at all.

Christopher Butler - ***Sidoti & Company - Analyst***

And just, finally, what are you thinking as far as the long-term interest rate that you think you might be able to get here?

John Fischer - ***Olin Corporation - SVP and CFO***

Somewhere probably in the 7% to 7.5% range.

Christopher Butler - ***Sidoti & Company - Analyst***

I appreciate your time.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - ***Longbow Research - Analyst***

A couple of questions. Given the tax benefit that you talked about, is your tax rate going to change meaningfully from the 36% run rate we expect for this year, or is this going to be accounted differently somehow?

John Fischer - ***Olin Corporation - SVP and CFO***

The book tax rate that you see will not change. The cash tax rate will be lower than the book rate as a result of this.

Dmitry Silversteyn - ***Longbow Research - Analyst***

But the book rate will remain the same -- I mean, the reported rate will remain the same.

John Fischer - ***Olin Corporation - SVP and CFO***

That's correct.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Okay. You talked about going to the Midwest market with distribution, or through distribution. You talked about KA Steel being one of the partners that you were distributing through, but I'm assuming that you are not their sole supplier. So will you be displacing some existing suppliers and therefore getting a little bit of a volume lift from this deal? Or will KA Steel continue to source from somebody other than yourself going forward?

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

KA will continue to source from all the sources that they had sourced from, and in addition to that will participate in growth that they obtain in the marketplace.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Can you explain that last part a little bit?

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

There will be opportunity for us to expand our sales, and we will have an opportunity for Olin to provide more caustic for that.

Dmitry Silversteyn - ***Longbow Research - Analyst***

So basically, what you're saying is, if I understand correctly, is the current incumbents will remain, but any new incremental business that you get, you will be supplying.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

I would say that that is the potential for that, but there's also the potential for the other supplies to participate in that as well.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Okay, fine. You acquired basically a chemical distributor. Yes, he is very focused, or they are very focused in the chemicals that you provide. So should we look at this as a one-off, or are you looking to build a distribution business in the caustic and hydrochloric acid and bleach area? Or could this be a platform for you to move into chemical distribution more broadly?

John Fischer - ***Olin Corporation - SVP and CFO***

We have said consistently that we would look at acquisitions as part of our corporate strategy, value adding, bolt-on acquisitions within our core markets. And we looked at KA Steel, and what was unique about them is their focus on distributing the products that we make. So that's how we looked at it.

We think our existing chlor alkali footprint when married with KA Steel provides us with a large number of interesting growth opportunities. It clearly strengthens our chlor alkali position, and we think it provides a platform for us to grow.

Joseph Rupp - *Olin Corporation - Chairman, President, and CEO*

I think it's important to underscore the point that you made initially, is they are lined up with us more so than any other kind of distribution. They are in the kinds of products that we make.

Dmitry Silversteyn - *Longbow Research - Analyst*

So I guess, to answer the second part of the question is that you're not looking to become a broad chemical distributor, but does this give you a platform for additional bolt-ons if you can find other regional businesses that -- distributor businesses that align well with the products that you are making?

Joseph Rupp - *Olin Corporation - Chairman, President, and CEO*

That is correct.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, good. Then just a couple of unrelated questions, if I may. First, you talked about your mercury remediation -- not remediation, but mercury closures and transition plans not being affected by this. Can you update us on where those plans stand, whether they're still on target, the original closing dates that you were talking about, or completion dates, I should say?

Joseph Rupp - *Olin Corporation - Chairman, President, and CEO*

Yes, John, go ahead.

John McIntosh - *Olin Corporation - SVP, President, Operations*

They are on target. Our conversion of our Charleston, Tennessee facility, which is both a KOH and a caustic producing site, is scheduled to occur beginning late in the third quarter into the early part of the fourth quarter.

And concurrent with that activity at Charleston will be the shutdown of the mercury cell producing Chlor Alkali plant assets at Augusta. So we continue to have both pieces of that major project as we move away from mercury on schedule with all of our previously-announced plans.

Dmitry Silversteyn - *Longbow Research - Analyst*

So sounds like you be out of that and complete with that by the end of this year.

Joseph Rupp - *Olin Corporation - Chairman, President, and CEO*

It will be.

John McIntosh - ***Olin Corporation - SVP, President, Operations***

That's our objective, yes, sir.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Okay, great. And then a question on freight. Is that still -- the inflation in the chlorine freight rates -- as big a problem as it has been in the past? Or has -- price increases have moderated? And can you update us on the lawsuit that was filed against the freight companies?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

I think we would typically save commentary on that for our normal earnings call, which will occur next week.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Including the update on the lawsuit?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

Yes.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Okay. Fair enough, thank you. That's all the questions I have.

John Fischer - ***Olin Corporation - SVP and CFO***

Thank you.

Operator

Don Carson, Susquehanna Financial.

Don Carson - ***Susquehanna Financial Group/SIG - Analyst***

Thank you. A couple of questions. First, John, it seems one of your intentions here is obviously to ship as little chlorine as you can by rail. So as you add up the -- KA's bleach capacity, hydrochloric acid, and your own expansions, where does this reduce your rail shipments of chlorine to as a proportion of your overall chlorine and ECU shipments?

John Fischer - ***Olin Corporation - SVP and CFO***

With KA Steel we have the potential to ship more than 20% of our ECU as bleach. We continue to look at our hydrochloric acid, which today is about 10% of our capacity, and we have a vehicle here to expand that. And then our existing pipeline structure, which is centered around St. Gabriel, but also we have pipeline customers at McIntosh and Charleston, continues on. So I would suggest that we're probably in a position where less than 50% of our chlorine, post-transaction, could be shipped by rail.

Don Carson - ***Susquehanna Financial Group/SIG - Analyst***

Okay. And on bleach, will you be shipping additional bleach to KA, or do they -- that 75 million gallons they have, is that -- that they manufacture, is that all they sell, or what are their total sales of bleach?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

It will be a combination of utilizing the assets that they have to produce bleach in addition to, where logical, shipping bleach in from assets, bleach assets at current Olin sites.

Don Carson - ***Susquehanna Financial Group/SIG - Analyst***

Okay. And then any time you integrate forward and buy a customer, sometimes you have other customers who may not be happy that you're competing with them. So is there the potential to lose some sales at other distributors, and how do you manage that process?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

Well, we have relationships with distribution companies not only in this geography and not only for these products, but really across all the products we make and across the entire country. Most of those relationships have been very long term in nature and are very strategic.

And the chemical industry is unique in that it is not atypical for competition between a supplier and a distributor who is also your customer. So we believe that on balance, when we look at the historical relationships we have and the fact that we have said that we're going to operate KA Steel as a separate business, we're comfortable that we will be able to continue to maintain our current distributor business and better serve our collective customers as a result.

Don Carson - ***Susquehanna Financial Group/SIG - Analyst***

Okay. And then finally, given their Midwest location, are there any chlor alkali assets out there that you might want to acquire just to fill out your system logistically?

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

There really are no chlor alkali producing assets in the Midwest.

Don Carson - ***Susquehanna Financial Group/SIG - Analyst***

Okay. All right. Thank you.

Operator

Alex Yefremov, Bank of America Merrill Lynch.

Alex Yefremov - ***BofA Merrill Lynch - Analyst***

I just wanted to come back to the question of suppliers. Could you comment -- how do you see your competitors' basically view of continuing to supply KA Steel with caustic soda going forward? And if they decide to pull back, do you have enough capacity to economically fill the system of KA Steel with your own caustic soda?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

Well, KA Steel has relationships, long-standing relationships with producers in the US that are both integrated and non-integrated. And most of those relationships are covered by long-term contracts.

We believe that KA Steel has historically been successful because they've offered a consistent outlet for caustic to these suppliers. And they have the infrastructure to make sure that when supply and demand are in balance, which is most of the time, one way or the other, that caustic continues to move through their system.

And we believe that combining Olin and KA Steel will actually make that capability to move caustic even more reliable and more robust than it is for KA Steel as a stand-alone company. And because of that, and again, because we're going to operate it separately as an independent or stand-alone part of the Olin family, we're comfortable we'll be able to maintain those supplier relationships.

Alex Yefremov *- BofA Merrill Lynch - Analyst*

Okay, great. Thank you. And the second question, given that KA Steel does some business internationally, moving some caustic off-shore, should we expect Olin's -- more of Olin's caustic soda to be sold for exports going forward?

John McIntosh *- Olin Corporation - SVP, President, Operations*

I don't think that there will be a significant change either way. Olin has participated in a very small way in the export market historically, but right now the market to serve caustic is in North America. And that's where I believe we'll be using our caustic product most efficiently.

Alex Yefremov *- BofA Merrill Lynch - Analyst*

And final question, if I may. To what extent has Olin penetrated the bleach market in the Midwest prior to this acquisition? What's the overlap between the two bleach businesses?

John McIntosh *- Olin Corporation - SVP, President, Operations*

We really haven't provided geographical segmentation of our bleach business. We have said in the press release the volume of business bleach business that KA Steel has in that area. We also have some independent business that is Olin's.

We believe there is growth potential in the Midwest, and we believe that there's a more efficient way to use the combined Company's assets to meet not only the growth market that we will pursue, but also the existing market -- the markets that both companies currently serve.

Joseph Rupp *- Olin Corporation - Chairman, President, and CEO*

And we also included in the handout, Alex, a map of where their bleach shipping points are and where ours are, and I think if you have an opportunity to take a look at that, you'll see that there's very little overlap.

Alex Yefremov *- BofA Merrill Lynch - Analyst*

Okay, great. Thanks, guys.

Joseph Rupp *- Olin Corporation - Chairman, President, and CEO*

Thank you.

Operator

Gregg Goodnight, UBS.

Gregg Goodnight - ***UBS - Analyst***

I was wondering, are there any other obligations, like pension obligations, environmental liabilities, or anything else that you're acquiring of any significance with this acquisition?

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

No.

John Fischer - ***Olin Corporation - SVP and CFO***

No.

Gregg Goodnight - ***UBS - Analyst***

Okay, I guess that was two nos. The second question -- historically, KA Steel was an aggregator of byproduct HCl. And you mentioned some of their assets, including distribution. Do you see potential for increasing HCl volumes? This has been a pretty lucrative market recently with the high prices that were previously mentioned. So do you see a pickup in potential sales volumes there?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

We do. You know, Olin has historically been an on-purpose burner acid producer and never really did look at opportunities in recycle HCL. One of the opportunities that this transaction may provide is that they have infrastructure which would allow us at least to look at that as a growth opportunity, in addition to using their distribution channel to better optimize and have higher capacity utilization for the burner acid assets that we currently have.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

I think at a high level, Gregg, as you know, HCl is a growth market. There's opportunities -- there is capacity that is going to be required in that market. And this positions us to participate in that growth.

Gregg Goodnight - ***UBS - Analyst***

Absolutely. The next question I had was -- you mentioned that the EBITDA would probably be a little bit less cyclical. I think in your commentary you mentioned a $37 million average EBITDA to 2008. I was just curious as to what the EBITDA levels were in 2009 and 2010, if you have those handy.

John Fischer - ***Olin Corporation - SVP and CFO***

No, we just said that the average between 2008 and 2011 was $37 million.

Gregg Goodnight - ***UBS - Analyst***

Okay, I'm sorry. I misheard you, then. All right, that makes a lot of sense. Hey, that's all I had. Thank you very much.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

Thank you, Gregg.

Operator

James Finnerty, Citigroup.

James Finnerty - ***Citigroup - Analyst***

Just wanted to check. Earlier, did you say that you anticipated a rate on the new debt of 7% or 7.75%?

John Fischer - ***Olin Corporation - SVP and CFO***

I said 7% to 7.5%.

James Finnerty - ***Citigroup - Analyst***

7% to 7.5%, thank you. And have you spoken with the rating agencies pre-announcing the transaction?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

We've reviewed the transaction with the rating agencies, but I can't comment on any specific actions they might take.

James Finnerty - ***Citigroup - Analyst***

Okay. And lastly, does this transaction change anything with regards to your longer-term M&A strategy and potential consolidation in the chlor alkali industry?

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

It does not.

James Finnerty - ***Citigroup - Analyst***

Great. Thank you very much.

Operator

Harry Mateer, Barclays.

Harry Mateer - ***Barclays Capital - Analyst***

I was just wondering if I could follow up a little bit more on the balance sheet side. Can you give us a slightly better sense for what the debt/cash split will be here on a permanent basis? Or I guess another way of asking that question is, how much cash do you want to have on the balance sheet as a minimum?

John Fischer - ***Olin Corporation - SVP and CFO***

I think if you go back and look at the way we've described our capital structure objectives, we've always talked about having staggered maturities with minimal powers that can be easily refinanced.

You know, we have a tower today of about $125 million in 2016, one of $150 million in 2019. If we issued 10-year bonds, we would be in 2022, which matches that perfectly. And I think you could assume we would view the tower similarly. Although, with this transaction, we're obviously a little bit of a bigger company.

Harry Mateer - ***Barclays Capital - Analyst***

Okay. And in terms of the minimum cash balance, generally what do you guys like to keep on hand? You've had a pretty substantial cash balance the last couple of years.

John Fischer - ***Olin Corporation - SVP and CFO***

We have typically talked about the desire -- that we need about $100 million of cash on hand just to finance the seasonality of our working capital. And we've always said we'd like to keep between $50 million and $100 million more than that.

Harry Mateer - ***Barclays Capital - Analyst***

Got it. Okay, thank you very much.

Operator

Roman Kuznetsov, Gates Capital Management.

Jeff Gates - ***Gates Capital Management - Analyst***

It is actually Jeff Gates. A couple of questions. Can you tell us what the CapEx has been the last five years on average for this business?

John Fischer - ***Olin Corporation - SVP and CFO***

For KA Steel?

John Fischer - ***Olin Corporation - SVP and CFO***

For KA Steel? You want the CapEx for KA Steel? It's fairly low. Just like the depreciation is, it's probably been in the $2 million to $3 million range.

Jeff Gates - ***Gates Capital Management - Analyst***

And that's what you'd expect it to remain?

John Fischer - ***Olin Corporation - SVP and CFO***

Yes.

Jeff Gates - ***Gates Capital Management - Analyst***

Okay. And then is there any customer concentration at KA Steel?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

No, there's not.

Jeff Gates - ***Gates Capital Management - Analyst***

But do they -- so they don't have any customers larger than 10%?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

No, sir.

Jeff Gates - ***Gates Capital Management - Analyst***

And then, can you talk about the industry structure of KA Steel -- what the competition -- who they consider their competitors?

John McIntosh - ***Olin Corporation - SVP, President, Operations***

I guess I would say that if you look at the broader North American geography, there are major distributors that compete across the country, including the area that KA Steel does. And then there is another group of distributors that are not as large in size that may compete in a specified geography. But I don't know that it's appropriate for me to comment specifically about who their competitors are.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

I think that we just say that they compete in the distribution market. So you've got the whole array of distributors. But as we've pointed out, they are a focused distributor in the products that we manufacture.

Jeff Gates - ***Gates Capital Management - Analyst***

Right, but within that, within your focused chlor alkali distribution footprint, is it fair to say it's fairly fragmented as far -- in the industry structure of distributors?

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

I don't think we would probably want to comment on the industry structure, to be honest about it.

Jeff Gates - ***Gates Capital Management - Analyst***

Okay. I don't quite understand why not. Then is there a -- is this -- you're buying assets or you're buying stock of KA Steel?

John Fischer - ***Olin Corporation - SVP and CFO***

This is a stock transaction.

Jeff Gates - ***Gates Capital Management - Analyst***

It's a stock transaction. Okay. And is there a financing contingency in the deal?

John Fischer - ***Olin Corporation - SVP and CFO***

No.

Jeff Gates - ***Gates Capital Management - Analyst***

Okay, thank you.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

Thank you.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - ***Longbow Research - Analyst***

I was just -- had a question on that EBITDA for this business. You talked about it averaged $37 million over the last four years, and it was $31 million in 2011. I'm assuming it had a pretty good 2008 and then a pretty bad 2009.

So can you talk about why the step down in the -- is there anything going on or went on in 2011 that caused the EBITDA to be fairly significantly below an average of the last four years? And how do you look at the profitability of that business changing, outside of the cost-saving synergies, under your tutelage?

John Fischer - ***Olin Corporation - SVP and CFO***

The profitability of KA Steel was fairly high in 2008 and 2009 associated with the level of caustic soda prices that we saw, which if you remember, Dmitry, were at a record level.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Yes.

John Fischer - ***Olin Corporation - SVP and CFO***

They actually did a lot better in 2011 than they did in 2010. And I think we look at the business and we analyzed it, and we're comfortable with the 2011 earnings as a proxy for what they can generate going forward with some growth opportunities that they have.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Okay, so the average EBITDA is not as meaningful of a bogey for forecasting as the 2011 EBITDA level?

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

That's fair.

John Fischer - ***Olin Corporation - SVP and CFO***

That's fair, yes.

Dmitry Silversteyn - ***Longbow Research - Analyst***

Okay, that's all I needed. Thank you very much.

Operator

And ladies and gentlemen, showing no additional questions in the queue, this will conclude the question-and-answer session. I would like to turn the conference back over to Mr. Joseph Rupp for any closing comments.

Joseph Rupp - ***Olin Corporation - Chairman, President, and CEO***

I'd like to thank you for joining us, and we look forward to speaking with you again next Tuesday as we announce our second-quarter earnings. Thank you.

Operator

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