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OLN - Q1 2013 Olin Earnings Conference Call

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OVERVIEW:

Co. reported 1Q13 net income of \$40.5m or \$0.50 per diluted share. Expects 2Q13 net income per diluted share to be \$0.45-0.50.



CORPORATE PARTICIPANTS

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Herb Hardt *Monness, Crespi, Hardt & Co. - Analyst*

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PRESENTATION

Operator

Good morning, and welcome to the Olin's first quarter 2013 earnings conference call. All participants will be in a listen-only mode.

(Operator instructions)

After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded I would now like to turn the conference over to Joseph Rupp, Chairman, President, and CEO. Please go ahead.

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

Good morning, and thank you for joining us today. With me are John Fischer, Senior Vice President and Chief Financial Officer; John McIntosh, Senior Vice President of Operations; and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations. Last night we announced that net income in the first quarter of 2013 was \$40.5 million, or \$0.50 per diluted share, which compares to \$38.7 million, or \$0.48 per diluted share, in the first quarter of 2012. Sales in the first quarter of 2013 were \$630 million, compared to \$507.2 million in the first quarter of 2012. During the first quarter of 2013, Olin generated \$107.9 million of adjusted EBITDA, which is the highest first quarter level in the history of the company.

The record adjusted EBITDA was driven by strong volumes and reduced costs in the Winchester business, contributions from the chemicals distribution business acquired in the third quarter of 2012. We now believe that during 2013, Olin can generate adjusted EBITDA in the range of \$415 million to \$445 million. In the first quarter of 2013, the Chlor Alkali business experienced lower demand and lower year-over-year prices. Sales volume of chlorine and caustic soda declined approximately 1% in the first quarter of 2013 when compared to the first quarter of 2012, while ECU netback's in the quarter declined 3% compared to the first quarter of 2012. The pre-tax contribution from the hydrochloric acid sales declined approximately \$8 million from the record quarterly level in the first quarter of 2012.



The elevated level of commercial demand that the Winchester business began to experience in the fourth quarter of 2012 continued through the first quarter of 2013. First quarter 2013 commercial sales increased in excess of 40% compared to the first quarter of 2012, and as a result, Winchester achieved the highest the level of quarterly earnings in its history. Second quarter 2013 net income is forecast to be in the \$0.45 to \$0.50 per diluted share range. Chlor Alkali second quarter 2013 segment earnings are expected to decline compared to the second quarter of 2012, due to higher costs associated with three planned plant maintenance outages, continued lower pre-tax contributions from hydrochloric acid sales, and higher depreciation expense.

Commercial volumes in Winchester expected to remain at elevated levels, and as a result, Winchester second quarter 2013 segment earnings are forecast to exceed second quarter 2012, and to be similar to the record level of first quarter 2013 segment earnings. Chemical Distribution second quarter 2013 segment earnings are expected to improve compared to the first quarter of 2013, due to seasonally stronger caustic soda and bleach sales. Year-over-year legacy environmental expenses are expected to increase in the approximate \$2 million to \$4 million range, and second quarter 2013 results are expected to include approximately \$2.5 million of restructuring charges. Let me discuss the businesses.

I will begin with Chlor Alkali. First quarter 2013 caustic soda sales volumes declined 1.4% compared to the first quarter of 2012. As we continue to experience an erratic demand pattern, we can currently expect second quarter 2013 chlorine and caustic soda volumes to be similar to first quarter 2013 volumes, and only slightly higher than second quarter 2012 levels. During the first quarter of 2013, chlorine shipments to vinyls customers increased 34% compared to the first quarter of 2012, with shipments to titanium dioxide customers declined 24%, and shipments to urethane customers declined 3%. In addition, shipments of hydrochloric acid declined 23% in the first quarter of 2013 compared to the first quarter of 2012.

First quarter 2013 decline in hydrochloric acid shipments was also accompanied by a 31% decline in prices from the record levels experienced in the first quarter of 2012. The combined impact of hydrochloric acid price and volume declines reduced first quarter 2013 segment earnings by approximately \$8 million when compared to the first quarter of 2012 levels. We also expect second quarter 2013 hydrochloric acid profits to be lower than the second quarter of 2012, due to lower prices. In spite of the unfavorable year-over-year comparisons being experienced in 2013, and that's really due to the record pricing in the first half of 2012, we continue to view hydrochloric acid as an important value-added product for our Chlor Alkali business.

During the second quarter, a hydrochloric acid expansion project at our Henderson, Nevada facility will be completed, and will increase the amount of our total chlorine capacity that can be converted to hydrochloric acid by approximately 13%. First quarter 2013 shipments of bleach increased 5% compared to the first quarter of 2012, and first quarter 2013 shipments of potassium hydroxide increased 23%. The first quarter increase in bleach shipments represents the 21st consecutive quarter of quarterly year-over-year increases in bleach shipments. During the first quarter, we achieved mechanical completion on our third HyPure bleach plant in Henderson Nevada, and expect to reach full operations this month.

We now have the ability to utilize in excess of 17% of our total chlor alkali capacity in the manufacture of bleach. We continue to realize premiums on the sale of beach in the \$100 to \$200 per ton range when compared to the sale of chlorine and caustic soda, and this continues to be an area of strategic emphasis. The Olin operating rate during the first quarter of 2013 was 85%, which reflects the impacted capacity reductions which took place in the fourth quarter of 2012. As a part of our mercury cell technology conversion reconfiguration project, our chlor alkali production at the Augusta, Georgia facility was discontinued, and the capacity of our Charleston, Tennessee facility was reduced. A total of 160,000 tons of capacity was eliminated. Had these capacity reductions not occurred, the first quarter of 2013 operating rate would have been 79%.

The Olin operating rate in March was 91%. The first quarter 2013 ECU netback was approximately \$565 compared to approximately \$585 in the first quarter of 2012, and approximately \$580 in the fourth quarter of 2012. The first quarter of 2013 ECU netbacks reflected caustic soda prices, which improved in the fourth quarter of 2012, but were more than offset by sequentially lower chlorine prices. We expect both chlorine and caustic soda prices to improve slightly in the second quarter of 2013 compared to the first quarter. In late February there were price increases announced for both chlorine and caustic soda. There was a \$60 per ton chlorine price increase that was not fully supported by all producers, which has not yet received support in the market. The caustic soda price increase announcements range between \$30 and \$50 per ton, and were fully supported by the producers. We currently expect \$10 to \$30 per ton of the caustic soda price increase to be accepted in the market, and to impact our results in the third quarter.



Freight costs in the first quarter of 2013 increased approximately 6% compared to first quarter 2012 levels. First quarter 2013 freight costs were slightly below the full year 2012 level. During the first quarter of 2013, we began to experience the benefits associated with the conversion from our mercury cell to membrane technology at our Charleston, Tennessee facility. Our first quarter 2013 electricity usage in the production of caustic soda declined 25% compared to the first quarter of 2012, and our electricity usage in the production of potassium hydroxide declined 15%. In addition, the overall chlor alkali business has benefited from lower electricity costs, due to the elimination of our mercury cell technology, lower natural gas costs, and lower coal costs, due to the price pressure brought on by natural gas. Since 2008 through the end of 2012, our full year electricity costs per unit of consumption have declined approximately 12%. First quarter 2013 electricity costs were similar to the 2012 level. Second quarter 2013 Chlor Alkali earnings are forecasted to decline slightly from the first quarter 2013 level.

Second quarter 2013 Chlor Alkali results will be negatively impacted by approximately \$10 million in higher costs compared to the first quarter, primarily due to spending associated with planned plant maintenance outage at our Henderson, Nevada, our Niagara Falls, New York plant, and our St. Gabriel, Louisiana facilities. These costs will more than offset the benefits from slightly higher ECU netbacks and seasonally stronger bleach volumes.

Let me speak about the Chemical Distribution. During the first quarter of 2013, the Chemical Distribution made their first deliveries of Olin-produced hydrochloric acid and potassium hydroxide. These deliveries are important because they represent significant components, the long-term plan to realize \$35 million of annual synergies at the end of the third year after the acquisition of KA Steel. Based on our first quarter performance, we now believe in excess of \$10 million of synergies can be realized in 2013.

First quarter 2013 Chemical Distribution sales were \$110.4 million, which consisted primarily of caustic soda sales. Bleach sales similar to what is experienced in Chlor Alkali business exhibit a seasonal pattern, and are concentrated in the months of May through August. Second and third quarter bleach sales should be more than double the first quarter level. First quarter Chemical Distribution segment earnings were \$4.1 million, and first quarter Chemical Distribution EBITDA was \$7.9 million. Second quarter 2013 Chemical Distribution earnings are expected to improve compared to the first quarter, primarily due to the seasonally stronger caustic soda and bleach sales, and continued synergy realization.

Now Winchester. The elevated level of commercial demand at the Winchester business began to experience in early November continued through the first quarter of 2013. As a result of the high level of demand, first quarter 2013 commercial sales increased approximately 40% compared to the first quarter of 2012. Sales volumes were strong across all product categories. The high level of first quarter 2013 commercial demand resulted in record quarterly sales of \$188 million for the business. During the first quarter of 2013, military and law enforcement sales declined approximately 4%. During the first quarter of 2013, the business continued to experience significant growth in its commercial backlog.

Through March 31, 2013 commercial backlog was approximately \$495 million, which compares to about \$138 million at December 31, 2012, and approximately \$137 million at the end of March 31, 2012. The total Winchester backlog at March 31, 2013, including military and law enforcement, was approximately \$640 million. Winchester's law enforcement backlog has also grown, and at March 31, 2013 it was approximately 175% higher than it was at the end of the first quarter of 2012. We believe at least some of the increase in the law enforcement backlog is the result of the level of commercial demand and concern over product availability. The combined effect of the record quarterly sales level, lower commodity metal costs, and the benefits associated with the Oxford Mississippi centerfire ammunition relocation cost resulted in the Winchester business generating a record level of quarterly segment income.

First quarter 2013 Winchester segment income was \$31.3 million, and the first quarter of 2013 segment EBITDA was \$35 million. In the first quarter of 2013, the per pound purchase cost of copper, lead, and zinc all declined compared to the first quarter of 2012. The per pound purchase cost of copper declined approximately 8%, lead 1%, and zinc 10%. The declines had a favorable impact of approximately \$1.9 million during the quarter. The cost savings realized for the centerfire ammunition relocation were approximately \$3.1 million during the first quarter of 2013, compared to a cost increase during the first quarter 2012 of approximately \$5 million. In the first quarter 2013 approximately 82% of all pistol ammunition was produced in the new facility.

During 2013, the balance of our pistol manufacturing operations will be relocated to the new facility. Based on the level of first quarter savings, we now believe that we will realize, during the full year 2013, cost savings of at least \$15 million associated with the relocation project. This forecast does not reflect the positive impact of the higher level of commercial demand. We continue to forecast that at least \$30 million of annual savings



will be realized once the relocation is complete. Based on the elevated level of first quarter commercial demand, which has continued through April, the level of commercial backlog, in the absence of any significant inventory throughout the supply chain, we expect that the Winchester sales to continue at current levels and into at least the fourth quarter of this year. Currently, Winchester sales are limited only by our ability to produce the product. As a result, we expect second quarter 2013 Winchester segment income to be similar to first quarter 2013 levels.

In spite of the inconsistent level of demand we are experiencing in our Chlor Alkali business, I continue to be encouraged by the overall performance, direction, and opportunities in our Company. Chlor Alkali has continued to expand its sales of bleach, with the HyPure capacity that's been added over the past year, and additional outlets provided by the KA Steel business, and growth should continue. I am encouraged that the synergy opportunities identified as a part of KA Steel acquisition can be realized, and I continue to be encouraged the performance of the Winchester business and the benefits being realized from the centerfire ammunition relocation. Their performance confirms our belief that the Winchester business can generate recurring levels of annual EBITDA in the \$85 million to \$100 million range. As I said earlier, we have the opportunity in 2013 to generate EBITDA in the \$415 million to \$445 million range. This forecast does not include full year benefits from the third HyPure bleach plant or the new HCl burner, nor does it include KA Steel-related synergies beyond the 2013 forecast of \$10 million, and these are drivers for continued EBITDA growth beyond 2013.

I'd like to turn the call over to John Fischer, our CFO, who will review several financial matters with you. John?

John Fischer - *Olin Corp - SVP and CFO*

Thanks, Joe.

First, I'd like to discuss a few items on the income statement. Selling and administration expenses increased \$5.4 million, or 12% in the first quarter of 2013, compared to the first quarter of 2012. This increase was due to the additional administration expenses of acquired KA Steel business of \$2.5 million, higher stock-based compensation costs, primarily related to mark-to-market adjustments, and higher benefit costs. As a point of reference, every \$1 change in the Olin stock price has an approximately \$800,000 impact on stock-based compensation expense. Selling and administration expenses as a percentage of sales were 8% in the first quarter of 2013, compared to 9% in the first quarter of 2012.

First quarter 2013 charges to income for environmental, investigatory, and remedial activities were \$1.8 million. First quarter 2012 charges to income for environmental, investigatory, and remedial expenses were \$2.8 million. These charges related primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites. Second quarter 2013 expenses for environmental, investigatory, and remedial activities are expected to increase in the \$2 million to \$4 million range compared to the second quarter of 2012. We now project that full year 2013 expenses for environmental, investigatory, and remedial activities to be in the \$15 million to \$20 million range. Full year expenses for environmental, investigatory, and remedial activities in 2012 were \$8.3 million. As a reminder, the 2012 level of environmental, investigatory, and remedial expense was significantly below the historic levels of \$20 million to \$25 million.

On a total company basis, defined benefit pension plan income was \$5 million in the first quarter 2013 compared to \$4.9 million in the first quarter of 2012. We are not required to make any cash contributions to domestic defined benefit pension plan in 2013. In addition, under the pension funding relief provisions of the Moving Ahead for Progress in the 21st Century legislation that was enacted in 2012, we may not be required to make any additional cash contributions to our domestic defined benefit pension plan for several years. We do expect to make cash contributions to our Canadian defined benefit plan of approximately \$1 million in 2013, and as a reminder, under Canadian pension rules, service costs are required to be funded annually. During the first quarter of 2013, Olin recorded a \$2.3 million pre-tax restructuring charge. This charge was primarily associated with the Chlor Alkali mercury cell conversion and reconfiguration project, and the ongoing relocation of the Winchester centerfire ammunition manufacturing operations. First quarter 2012 pre-tax restructuring charges were \$1.9 million. For the full year 2013, we expect to incur approximately \$10 million of restructuring charges associated with the Winchester relocation and the Chlor Alkali mercury cell conversion and reconfiguration project. The effective tax rate in the first quarter of 2013 was 36.5%, and we continue to believe the full year 2013 effective tax rate will be in the 35% to 37% range. Primarily as a result of the accelerated depreciation provisions of the 2010 Jobs Creation Act that were extended in the Taxpayer Relief Act of 2012, we currently believe our 2013 cash tax rate will be in the 15% to 20% range.



Now turning to the balance sheet. Cash and cash equivalents at March 31, 2013, including the restricted cash associated with the Go Zone financings that are classified as long-term assets on the balance sheet, totaled \$103.7 million. As of March 31, 2013, the restricted cash balance was \$10.7 million. During the first quarter of 2013, working capital employed increased by \$83.4 million. A first quarter increase in working capital employed is consistent with Olin's normal seasonal pattern, but this year was higher than prior years due to the high level of Winchester sales. Winchester-related receivables increased approximately \$50 million from the end of the fourth quarter of 2012 to the end of the first quarter of 2013. The March 31, 2013 working capital balance includes approximately \$47 million associated with the Chemical Distribution business. Capital spending in the first quarter of 2013 was \$30.2 million, compared to \$75.9 million in the first quarter of 2012.

First quarter 2013 capital spending included spending for the third HyPure bleach facility and a hydrochloric acid expansion at the Henderson, Nevada facility. Depreciation and amortization expense during the first quarter of 2013 was \$32.9 million, compared to \$25.5 million in the first quarter of 2012. We continue to forecast full year 2013 capital spending to be in the \$100 million to \$130 million range. Full year 2013 depreciation and amortization expense is forecast to be in the \$135 million to \$140 million range. During the first quarter of 2013, \$11.4 million of debt that became due was repaid. After this debt repayment, between now and December of 2016, Olin faces less than \$40 million of required debt repayment. The average weighted duration of all the Olin debt outstanding is currently in excess of nine years.

We continue to feel comfortable about our financial condition, and believe we are entering a period of increased financial flexibility. This reflects the combination of the reduced levels of capital spending expected in 2013 compared to the 2012 and 2011 levels, the absence of any significant debt maturities, and the absence of any cash contributions to the large domestic defined benefit pension plan. Yesterday, Olin's Board of Directors declared a dividend of \$0.20 on each share of Olin common stock. The dividend is payable on June 10, 2013 to shareholders of record at the close of business on May 10, 2013. This is the 346th consecutive quarterly dividend to be paid by the Company.

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, and our first quarter earnings release. A copy of today's transcript 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 also available under press releases.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session.

(Operator instructions)

Frank Mitsch, Wells Fargo Securities.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

Good morning, gentlemen.

I remember the days when we only had to worry about Winchester in the third quarter, but had a very impressive result here. I apologize -- Joe, did you say that you expected Winchester for the year at \$85 million to \$100 million? I wasn't sure I got that right.



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

No, we said that ongoing -- that we actually had a business that we believe ongoing was an \$85 million to \$100 million business.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

Ongoing. Because you did \$31 million this quarter, you looking at another \$31 million in the second quarter, and then obviously we get into the seasonally-strong third quarter, but again you're running flat out right now. So you've got \$90 million-plus just in the first three quarters, it looks like. So that \$85 million to \$100 million -- that's not referring to 2013, correct? That's referring to --

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

That is correct, Frank. You're -- that is correct.

John Fischer - *Olin Corp - SVP and CFO*

Yes, we said, Frank, after the completion of the relocation project, we expect to be able to generate that on a recurring basis in normal demand.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

Okay. All right.

And at this point, you are sold out for the balance of the year. Normal will not be a 2013 event, then. All right.

Now, can you explain a little bit on the hydrochloric acid? I know fracking is a big use of that. What has happened to that market to show the material drop off?

John McIntosh - *Olin Corp - SVP Operations*

Frank, this is John.

A couple things I would say -- the HCl market is really impacted by demand, and you mentioned oil and gas demand in the oil patch is down. We've also seen a decrease in mining, which is another area where HCl is used pretty significantly.

The other thing that really impacts HCl pricing is by-product production. A lot of other chemical operations, such as MDI, PDI, fluorocarbons, and others, generate a significant amount of by-product acid. By-product acid rates are up significantly over the last several months, and that's really impacted the supply side. HCl was really hit with the worst of all situations -- reduced demand from some of the key markets that it serves, and increased supply because of by-product acid levels.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

All right. That's very helpful.

And John, if I could stay with you -- just the last thing on the turnaround impact. It looks like it adds \$0.08 a share negative for Q2. How would you describe your turnaround schedule for the balance of the year? Three facilities in one quarter seems rather high. Was there a thought to maybe spacing it out a little bit more, or basically they had come to kind of their end of service, and you needed to get it done sooner rather than later?



John McIntosh - *Olin Corp - SVP Operations*

Let me talk about the three in one quarter first. That's atypical for us. One of the three was delayed from the Fall of last year -- the Niagara outage. And we really delayed that because we were not in a position to take that outage with all of the capacity-related projects we were working on, shutting down capacity at Augusta, converting the capacity and reducing it at Charleston. So we really just had to postpone that outage from the fall of last year into this year.

Normally, we would balance our outages out a little better, but our northern plants really have a pretty limited window for outages. They can't do them in the first quarter or the fourth quarter because of weather; and we try not to schedule major plant outages in the peak season, obviously, because of seasonal demand requirements that we have. So this was not a typical -- an atypical quarter for us, both in terms of the cost impact of \$10 million and the ECU equivalent -- ECUs lost because of the outage, which is about 3% to 4% of operating capacity.

When we look at the year going forward, we really have no more outages as significant as the ones in the second quarter. We have a couple of small outages late in the third quarter in preparation for the end of the seasonal demand period and some other work that's going on. This is by far the most significant outage impact we will see during the course of the year.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

All right. Terrific. That was very helpful. Thank you.

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

Thank you.

Operator

Christopher Butler, Sidoti and Company?

Christopher Butler - *Sidoti & Company - Analyst*

Good morning, guys.

Sorry if I missed it -- as far as the timing and progress of the HCl and the bleach facility; as far as this year goes, could you give me an update there?

John McIntosh - *Olin Corp - SVP Operations*

We started up our third HyPure bleach plant, which is at Henderson, Nevada, late in the first quarter, with optimization continuing as we approach the seasonal peak period. So that plant is up, and we have all three of our HyPure plant bleaches now operational across our system. We are actually, as we speak, this week in the start-up phases of the HCl plant, which is also being brought online at Henderson, Nevada. We expect that plant to be up and operational very soon, and then we will optimize the operation of that facility as we move through the second quarter.

Christopher Butler - *Sidoti & Company - Analyst*

And did I hear right that those are not being included in the EBITDA guidance for the full year?

John Fischer - *Olin Corp - SVP and CFO*

No. We just pointed out that they will not contribute a full year's worth of EBITDA; so that there will be incrementally more EBITDA from those next year as we move forward.

Christopher Butler - *Sidoti & Company - Analyst*

I see. I see.

And looking at Winchester being strong, and if I am not mistaken, you have updated your outlook on Winchester to now include the fourth quarter, which you did not in previous conference calls, if I remember correctly. And you also raised the expectations on synergies from KA Steel. Could you talk about those in terms of lifting the EBITDA guidance by \$5 million? It sounds like you might have been able to lift it by more.

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

Yes. It's hard to forecast a surge from the Winchester business. We were asked in the last call what we thought. In that call we said we thought it would go through the third quarter. This now call we've announced it's going to the fourth quarter. I think that what we've laid out is our view of a full year as best we can at this point in time, Chris. And the two big issues for us going forward in Chlor Alkali is, we've got pricing announced on both sides, both in chlorine and caustic, and ultimately one or both of those are going to have to take traction going forward.

Christopher Butler - *Sidoti & Company - Analyst*

And finally, on the cash side of the equation, you pointed out a compelling case for good cash flow. Could you talk about what you intend to do with that to generate shareholder value?

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

We continue to -- we are still interested in bolt-on acquisitions or investments that within our core businesses would help us to continue to enhance shareholder value. In this first quarter, we've had to use some cash to support the high level of working capital from Winchester, which is a good thing. And if we can't find bolt-on acquisitions that make sense, we will continue to have to evaluate share repurchase or dividend ways of providing capital reward back to our shareholders.

Christopher Butler - *Sidoti & Company - Analyst*

And from a valuation and strategic combination point of view, would downstream acquisitions make more sense or less sense than Chlor Alkali acquisitions?

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

We've always felt naturally if there was any more consolidation in Chlor Alkali that would be something that we're clearly interested in. Downstream for us, more hydrochloric acid, more bleach -- totally interested in.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

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

Thank you.

Operator

Herb Hardt, Monness.

Herb Hardt - *Monness, Crespi, Hardt & Co. - Analyst*

Good morning. Can you tell me if there's a sense of double-ordering on Winchester? And if so, do you have any idea how much?

John Fischer - *Olin Corp - SVP and CFO*

We have experienced in past surges incidents of double-ordering, and we don't really have a good handle on how much that is. I would say to you that the \$495 million backlog probably has some softness in it. But based on where we are today, we won't experience any ramifications from that until the surge ends, which as Joe just said, will not occur until 2014.

Herb Hardt - *Monness, Crespi, Hardt & Co. - Analyst*

Okay. Thank you.

Operator

Don Carson, Susquehanna Financial

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

Joe, I haven't seen any of the 9-millimeter at my local sporting goods emporium for three months. So the surge does seem to be going on. Is it law enforcement that is exacerbating things here, as they used to buy in a just-in-time basis? They're finding out just-in-time is two to three months.

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

Well, I think law enforcement has joined the party, so to speak. That's not right way to say it, but everybody has a concern of not being able to get ammunition. So they have upped their requirements and their demands.

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

And again, would you think that -- you mentioned the \$30 million Oxford relocation. I mean, that was the number you put out, I guess, a year and a half ago at much lower volumes. What do you think that, at current surge-type volumes, what could that relocation be worth to you in terms of cost benefits?



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

We haven't quantified that, but I think your observation, Don, is naturally correct. If we were to stay at these higher levels, there would be more benefit, because just strictly with the ability to be able to operate at a higher level at a significantly lower cost.

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

And then the final question -- Winchester, post-surge, you say you've got a business with \$85 million to \$100 million of annual EBITDA potential. Is that something large enough you think you could spin off to shareholders, or somehow do something with?

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

Well, Don, we certainly will have a business that's worth a lot more than what it was several years ago; and provides us a multiple of options, I think, in the future.

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

Okay. Then just a question on Chlor Alkali. John, we've got a lot of planned capacity for the second half of the year. Some of the existing producers are talking about maybe making some offsetting closures when their new capacity comes up. How do you see pricing unfolding in the second half of the year? And what volume impact does the Oxy start-up in New Johnsonville have, and the new Westlake capacity -- what volume impact will that have on your business?

John McIntosh - *Olin Corp - SVP Operations*

I guess I would say that I don't have the same negative outlook on this capacity as a lot of people do. That is really driven by the fact that, unless we have -- as long as we have operating rates across the industry that are reflected in the mid-\$80s to \$90, this additional capacity coming online is not going to create caustic that is surplus, because there isn't chlorine demand associated with caustic produced that doesn't have a home.

We do expect, and we believe the market in terms of projections has forecasted in, that there is some capacity coming online. But when you look at the North American chlor alkali industry, they are in a unique position in that their ability to export chlorine derivatives offshore, because of competitive energy pricing in the Gulf Coast. And so I think that, to some respect, mitigates additional capacity coming online.

And when you look at caustic import/export balances, for the last five years, the North America has been a net exporter of caustic. Most of it to South America, to the tune of 1.5 million tons a year, net export. And we will retain that market as a place to put caustic, because on a cost basis, we are the most cost-effective producer to service that requirement. So we do expect, especially when we come out of seasonal demand periods, and new capacity comes online, we do expect to see some dampening maybe in prices, but we don't expect to see something significant that will have an impact much into 2014.

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

And then what about your volumes to these new startups taking business away from you?

John McIntosh - *Olin Corp - SVP Operations*

Well, we will lose business associated with some of the start-up activity that's going on. But we just didn't learn this yesterday, and part of our focus on increasing the amount of chlorine that we move into either bleach and/or HCl, which now represents 30% of our total capacity, is an outgrowth of the fact that we recognize that we really need to be moving our products, our base chlor alkali ECUs, into value-added products downstream.

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

Thank you.

John Fischer - *Olin Corp - SVP and CFO*

Yes, sir.

Operator

Gregg Goodnight, UBS.

Gregg Goodnight - *UBS - Analyst*

Good morning, gentlemen. Hey, great detail and comments. Very helpful.

My first question was, in terms of this surge, you've said that the surge will go through the end of this year, as a minimum. Looking back historically, the last bump we had -- '08, '09 -- the surge seemed to last a couple of years. Is there any reason to believe that the demand period wouldn't be extended at least equivalent to what it had been in the past?

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

I think the safest thing for us to say, Greg, would be what your observation was. We feel that the surge last time lasted six quarters and then started to -- the crest didn't start to come down. And it's difficult to forecast these things, because they move to different issues that drive it. So we feel comfortable saying what we said in our comments right now, and I think historically, as a reference point, the last one lasted six quarters.

Gregg Goodnight - *UBS - Analyst*

Okay. Fair enough.

Second question. As you continued through this centerfire relocation, have you been able to increase the instantaneous rates which you are able to produce ammo? Or has it been fairly constant, or have -- actually had a little bump in your ability to produce product?

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

We have had improvement in our productivity at our new facility.

Gregg Goodnight - *UBS - Analyst*

Can you quantify that for us?

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

We didn't quantify it. We will just say we are very pleased with it.



Gregg Goodnight - UBS - Analyst

Okay. Last question for John.

You gave a little bit of detail in terms of your electrical cost improvement. Could you remind me what you said in terms of year-over-year where you are looking at electrical costs?

John Fischer - Olin Corp - SVP and CFO

We just said that the first quarter 2013 costs were equal to 2012 levels.

Gregg Goodnight - UBS - Analyst

Okay. But on an intensity basis, you are reducing the electrical intensity per ECU time -- am I correct there?

John Fischer - Olin Corp - SVP and CFO

That's correct.

Joseph Rupp - Olin Corp - Chairman, President and CEO

Right.

Gregg Goodnight - UBS - Analyst

Okay, and could you quantify that it all?

John McIntosh - Olin Corp - SVP Operations

No. We've typically not quantified those.

Gregg Goodnight - UBS - Analyst

I'll go back to the books on that one. Thank you gentlemen.

Operator

Andy Cash, SunTrust Robinson Humphrey.

Andy Cash - SunTrust Robinson Humphrey - Analyst

Good morning.

Just a question back on Winchester. There was an article a few weeks back in the New York Times talking about how most of the increase in firearms is with existing gun owners. So unless their usage of ammo increases dramatically, I am just curious -- where is all this ammo going? I mean, is there



a point where the inventory's just -- the climates are overflowing, and the gun rack's overflowing. Do you know where this stuff is going? Are they shooting the bullets?

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

We don't know if it's continuing to be shot. There is some that historically does get -- people buy it and store it and have it; and as -- what we forecast the last time was that when the peak ended, that there would be a downturn. Last time we forecast about 20% downturn over a two year period, is what we thought would happen. The reality of it, Andy, there is a lot of ammunition being shot as we speak at this point in time.

Andy Cash - *SunTrust Robinson Humphrey - Analyst*

Okay. Can you -- do you have any idea what that number is? I mean, has it gone up by 10%, 20%?

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

We don't have a -- all we can -- ours is a qualitative from just inputs that we get from those who are shooting around the country.

Andy Cash - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you.

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

Thank you.

Operator

Edward Yang, Oppenheimer

Luis Amadeo - *Oppenheimer & Co. - Analyst*

Good morning. This is Luis Amadeo for Ed.

I know you provided a lot of guidance on Winchester, but just looking at the operating margin, which move to like 16.6% versus 8.5% in 2012, it seems like there is probably like 200 basis points, which is from the relocation. So, of the rest, how much of that is kind of sustainable, or is it just volume-related?

John Fischer - *Olin Corp - SVP and CFO*

The amount that comes from the cost savings is sustainable, and that will grow. That is the point we're trying to make. We said that this year we think we will realize about \$15 million of benefit from that, and that, that will be at least \$30 million when the project is complete. And if you use a normal level of sales number, you're going to get about 500 basis points long-term of margin improvement from the relocation.



Luis Amadeo - *Oppenheimer & Co. - Analyst*

Okay, perfect. Sounds good. Thank you very much.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good morning, guys.

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

Morning.

Dmitry Silversteyn - *Longbow Research - Analyst*

Question on the chlorine comment you made going into the TiO2 market. I think you said it down was about 24% year-over-year. Is that correct?

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

That is correct.

Dmitry Silversteyn - *Longbow Research - Analyst*

Was that reflective of the industry demand being down? Or was there some share loss? Are you deemphasizing that market in any way as you're moving to bleach?

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

Industry demand down.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So that is reflective of what the production levels are for the TiO2 producers?

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

That's correct.

John Fischer - *Olin Corp - SVP and CFO*

That's correct.



Dmitry Silversteyn - *Longbow Research - Analyst*

You mentioned that caustic being exported -- the industry being a net exporter. Are you a player in that export market, and is that a meaningful outlet for your caustic demand? The reason I'm asking this -- when you talked about people's ability to export chlorine derivatives and therefore not being that impacted by new capacity coming on line, unfortunately there's also a caustic component to chlorine production. I'm just wondering if the caustic export demand is equally strong? And are you a participant in that market?

John McIntosh - *Olin Corp - SVP Operations*

We have participated on a limited basis historically. Part of that was because we are contracted; a very high percentage of our business is contracted. And we don't do much spot business, or have much volume to put on the export market, typically. But we have done some historically. My point is that the industry in total -- the North American industry in total -- has a very significantly growing caustic demand area in South America, driven by pulp and paper growth; and caustic demand in that segment that we are logically suited to fill that market, to meet that demand. And the North American industry will continue to have that opportunity.

Dmitry Silversteyn - *Longbow Research - Analyst*

So as you look at this new capacity coming onstream and the increased coproduction of caustic, are you proactively looking at -- maybe not contracts -- but maybe at least establishing relationships so you can push this product into the export market when the need arrives?

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

That is an opportunity for us. And the other opportunity we have, quite frankly, is our KA Steel acquisition affords us a chance to sell caustic into the distribution market, which is another channel that we historically -- Olin historically -- hasn't had that same kind of access to. So I think those are two areas where we have the opportunity to help ourselves.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it, got it.

Switching gears really quickly to Winchester -- demand obviously is very strong, it's going to stay strong through the year. As you mentioned, you're selling everything you can produce, and I'm assuming your inventories are pretty depleted. Has there been any thought given to running the Alton, Illinois, plant a little bit past the original closure time, at least until the surge lasts? Or does that not enter into your considerations at all?

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

There's a limited amount that we can do on that, because most of that equipment is all being sent to Oxford.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So it's not -- you're not duplicating line at a time; you're actually moving --

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

No, unfortunately we don't have two fully integrated plants.



Dmitry Silversteyn - *Longbow Research - Analyst*

Got you, got you. Okay.

Just a follow-up on the comment that you made on the lack of success with the chlorine price increases. Outside of a seasonal pick-up in demand, which I'm assuming you're seeing, what else needs to change for that, for at least portions of that \$60 a ton to go into the market? And has there been -- you talk about it not being supported; has there been all one or two biggest non-supporters? (Laughter)

John McIntosh - *Olin Corp - SVP Operations*

Well, let me just talk about the dynamics that we think are likely to change that we will support improved chlorine pricing. In an earlier question about the TiO2 segment and the fall-off in demand for that segment in the quarter, we do not believe that, that is a recurring demand level for TiO2, and if you look at what the TiO2 producers are saying, they are predicting that, that's going to get better.

We believe that vinyl's demand is going to improve, driven by housing starts and other consumption, other markets where vinyl is consumed. And if you look at the forecast for North American vinyls operating rates, they are forecast to be up and over 90% in the next two quarters. So we believe that is consistent with dynamics which might support chlorine pricing improvement.

And then we have what we believe will be a record bleach season in front of us, and HCl demand and capacity available to us with our investments in new projects that will help as well on the chlorine side. So we believe those things are very possible as the market moves into the peak season, and those things would all support chlorine price increases.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Would you need another price increase announcement, or you just continue to work the \$60 that you already have the market?

John McIntosh - *Olin Corp - SVP Operations*

We would -- well, first we work what we've got in the market.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. All right, thank you.

Operator

Alex Yefremov, Bank of America/Merrill Lynch.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Good morning. Thank you.

I just wanted to ask on the Winchester if there's any opportunity for intra-year price increases? I know usually it's annual process, but given the strength in demand, could you --?

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

We introduced a 2% price increase effective June 1.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

So that's on top of your annual? And how large was the increase that you implemented at the end of 2012?

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

We implemented January 1, 3% to 5%. We've increased -- we've added an additional 2% in June.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Great. Thank you.

And you mentioned in the prepared remarks that you expect ECU pricing to increase about \$10 to \$30 per ton in the third quarter, if I got that correctly. Is that a factor of the car and caustic soda price increases that are on the table? Or basically, to what extent this is a done deal versus expectation?

John McIntosh - *Olin Corp - SVP Operations*

It's reflective of our expectation that the market will recognize some part of the caustic price increases that were announced. And we forecast between \$10 and \$30.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Great. Thanks a lot.

And a third one, if I may. I just wanted to ask you about regional trends in the US caustic soda market. Have you benefited from relatively tighter East Coast caustic soda supply demand? And does it offset somewhat weaker pricing on the West Coast for you?

John McIntosh - *Olin Corp - SVP Operations*

We have benefited from a lot of events in the Eastern US that have impacted demand and supply disruptions that have occurred in the first half of the year. We don't sell near as much caustic on the West Coast; and in all honestly, the West Coast caustic market is really served by product that is coming from China. So the benefit we have had, and we have had some meaningful results because of it, has been in the Eastern US.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Got it. Thanks a lot.

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

Thank you.



Operator

John Roberts, UBS.

John Roberts - UBS - Analyst

Morning, guys.

Joseph Rupp - Olin Corp - Chairman, President and CEO

Good morning, John.

John Roberts - UBS - Analyst

Joe, you use the term erratic demand when you were discussing Chlor Alkali. Was that specifically referring to, say, the TiO2 segment, or was it broad-based? And is at the timing of the way orders are coming in, or is it across customer markets? Can you just give some granularity, what you meant by erratic?

Joseph Rupp - Olin Corp - Chairman, President and CEO

Yes, John will give you some granularity, but it's pretty broad. Go ahead.

John McIntosh - Olin Corp - SVP Operations

Yes, this is John McIntosh.

It's really broad. It's more than just one market segment, and it's month by month. I mean, the erratic pattern that we have seen creates a situation where we really have trouble optimizing where we produce the product based on where we are going to move it for ultimate sale. That erratic demand creates a cost penalty in our system, and just creates forecasting problems for us, and inconsistent demand across the regions in the country.

John Roberts - UBS - Analyst

You think it's reflecting the supply chain? Or are customers anticipating the price changes? Or --?

John McIntosh - Olin Corp - SVP Operations

I think it's more reflective of supply disruptions and supply chain-related issues and downstream uncertainty in the markets that our customers are serving than anything else.

John Roberts - UBS - Analyst

Thank you.



Operator

Richard O'Reilly, Revere Associates.

Richard O'Reilly - *Revere Associates - Analyst*

Good morning. Thank you gentlemen.

Several quick questions. The first is a math one. If you look at your ECUs year over year -- if you could add back the freight cost, what would your gross ECU have looked like?

John Fischer - *Olin Corp - SVP and CFO*

Yes, that's not a number we typically disclose.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Okay.

Second quick question is, yesterday we saw an article in the Journal about GE Credit withdrawing from its support of gun shops. If you were to see that extend to other financial suppliers, would you be in a position to have to support your customers to a greater extent than normal?

John Fischer - *Olin Corp - SVP and CFO*

The largest part of our commercial ammunition sales do not go to gun shops and distributors, but go to retailers and large sporting goods stores.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. All right. Okay, that's it. Thank you, guys.

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

Thank you.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Rupp for any closing remarks.

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

We would like to thank you for joining us today, and we look forward to reporting our results at the end of the second quarter in July. Thank you.

Operator

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



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