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OLN - Q1 2014 Olin Earnings Conference Call

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OVERVIEW:

OLN reported 1Q14 sales of $577m and net income of $29.5m or $0.37 per diluted share. Expects 2Q14 diluted EPS to be $0.40-0.45.

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PRESENTATION

Operator

Good morning. Welcome to the Olin Corporation First Quarter 2014 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 call over to Joseph Rupp, Chairman, President, and CEO. Please go ahead sir.

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

Good morning. Thank you for joining us today.

With me today are John Fischer, 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. Last night we announced that net income in the first quarter of 2014 was $29.5 million or $0.37 per diluted share, which compares to $40.5 million or $0.50 per diluted share in the first quarter of 2013.

Sales in the first quarter of 2014 were $577 million, compared to $630 million in the first quarter of 2013. First quarter 2014 results included pretax restructuring charges of $1 million, an unfavorable income tax adjustment of $1.6 million, which was associated with a March 31, 2014 change in state tax law, and approximately $6 million, one-time weatherrelated out of pocket costs in the Chlor Alkali and Chemical Distribution businesses that occurred during the quarter.

Yesterday the Olin Board of Directors approved a three-year 8 million share repurchase program with our current financial profile and our outlook for 2014 and beyond. This program will allow us to be a consistent, steady, and opportunistic buyer of our shares. The high level of commercial demand that was experienced by Winchester in 2013 continued in the first quarter of 2014, and Winchester generated the second highest level of quarterly sales and segment income in its history.

In addition, the commercial backlog at the end of the quarter remained above $400 million, which is significantly higher than the pre-surge backlog of $137 million on March 31, 2012. During the first quarter of 2014, the Chlor Alkali business experienced lower chlorine and caustic soda shipments compared to the first quarter of 2013. These were partially offset by higher first quarter 2014 shipments of bleach, hydrochloric acid, and potassium hydroxide when compared to the first quarter of 2013.

Firstquarter of 2014 ECU netbacks declined compared to the first quarter of 2013, reflecting lower caustic soda prices. First quarter 2014 Chemical Distribution shipments declined compared to the first quarter of 2013, and were negatively impacted by the weather in the Midwest. First quarter of 2014 adjusted EBITDA was $91.8 million. We continue to forecast that full-year adjusted EBITDA will be in the $375 million to $425 million range.

Second quarter of 2014 net income is forecast to be in the 40% to 45% per diluted share range. Chlor Alkali second quarter earnings are expected to decline compared to the second quarter of 2013, due to lower ECU netbacks, partially offset by lower costs. Second quarter 2014 Chemical Distribution earnings are expected to be similar to the second quarter of 2013.

In the Winchester business we continue to see strong commercial demand, but second quarter 2014 earnings are expected to decline compared to the second quarter 2013 levels, due to a more historical level of seasonal demand for shotshell ammunition and reduced levels of pistol, rifle, and rimfire inventory in our system, which will reduce total ammunition sales and earnings compared to both the second quarter 2013 and the first quarter 2014 levels.

Second quarter 2014 corporate and other expenses are forecast to be comparable to the second quarter of 2013. Second quarter 2014 earnings are also expected to include restructuring charges of approximately $2.5 million.

Let me just talk a little bit more detail about the businesses: first Chlor Alkali. In late January during our fourth quarter 2013 earnings call, we described strength in the chlorine demand as we moved through January. Unfortunately, the January level demand did not sustain itself throughout the quarter, as we experienced lower levels of chlorine demand from customers during February and March, some of whom were negatively impacted by the weather.

Our Chlor Alkali logistics system was also negatively impacted by weather. We struggled throughout the quarter with rail car availability due to slower than normal turnaround times, and as a result ended the first quarter with a late list of both chlorine and caustic soda. During the first quarter of 2014, the Chlor Alkali business incurred discrete out of pocket costs of $5.5 million attributable to the weather.

In both our McIntosh, Alabama and Charleston, Tennessee plants experienced unplanned outages due to utility mandated electricity curtailments, and the McIntosh facility experienced approximately three days of down time as a result of weather conditions. In addition to these increased maintenance costs, we also incurred energy costs from electricity surcharges and increased steam usage and transportation costs due to rail car demurrage costs.

The Olin operating rate during the first quarter of 2014 was 79%, which compares unfavorably to the first quarter of 2013 operating rate of 85%, but is consistent with our four-year average of 80%. Without the combination of the unplanned outages due to the electricity curtailments and reduced production levels created by rail car availability, the first quarter 2014 operating rate would have been approximately 83%.

During the second quarter of 2014 we expect Chlor Alkali operating rates to improve to the 85% to 90% range. The first quarter of weather-related issues have for the most part been corrected, seasonal demand has improved, and we expect to see a normal, seasonal increase in bleach demand.

The second quarter 2014 operating rate forecast includes maintenance outages in our Henderson, Nevada and our St. Gabriel, Louisiana and our McIntosh, Alabama facilities.

First quarter 2014 chlorine and caustic soda volumes declined 6% compared to the first quarter of 2013, but increased 3% compared to the fourth quarter of 2013 volumes. Chlorine shipments to vinyls customers in the first quarter of 2014 declined compared to the first and fourth quarters of 2013. First quarter 2014 chlorine shipments to titanium dioxide customers were similar to the first quarter of 2013, and 32% higher than the fourth-quarter of 2013 levels, while first quarter 2014 chlorine shipments to urethane customers increased 16% compared to the first quarter of 2013.

First quarter 2014 shipments of hydrochloric acid increased 44% compared to the first quarter of 2013, and first quarter 2014 bleach sales increased 6% compared to the first quarter of 2013 levels. For bleach shipments this represents the twenty-fifth consecutive quarterly year-over-year increase in bleach shipments. Also, during the first quarter of 2014, shipments of potassium hydroxide increased 23% compared to first quarter 2013 levels. First quarter 2014 potassium hydroxide shipments benefited from strong de-icer demand, including the year-over-year improvements in bleach, hydrochloric acid, and potassium hydroxide shipments.

Our total first quarter 2014 Chlor Alkali shipments declined 2% compared to the first quarter of 2013. First quarter 2014 ECU netbacks declined approximately 8%, compared to the first quarter of 2013, and declined approximately 1% compared to the fourth quarter 2013 level.

The year-over-year decline reflects the lower caustic soda prices, partially offset by higher chlorine prices. The sequential decline in ECU netbacks from the fourth quarter of 2013 to the first quarter of 2014 also reflects lower caustic soda prices, partially offset by higher chlorine prices.

First quarter 2014 hydrochloric acid prices also declined compared to the first quarter of 2013. Hydrochloric acid prices have declined consistently since they peaked in the first half of 2012, but the first quarter 2014 price still represents a meaningful premium for the price of chlorine.

In the second quarter of 2014, we expect ECU netbacks to improve compared to the first quarter of 2014, but they will be lower than the second quarter 2013 levels. The improvement in the second quarter of 2014 compared to the first quarter reflects the positive impact of the reinstatement of the fourth quarter 2013 caustic soda price increase that occurred in the first quarter of 2014.

Based on the operating rates experienced in the first quarter of 2014, we do not expect the $50 per ton chlorine price increase that was announced in the first quarter to be successful at this time. We do expect to see operating rates increase significantly in the second quarter and the end of the third quarter, which may support the first quarter chlorine price increase later in the year.

Chlor Alkali first quarter 2014 segment earnings were $34.3 million compared to the first quarter of 2013 segment of $58.5 million. The year-over-year decline reflects lower ECU netbacks, lower hydrochloric acid prices, lower chlorine and caustic soda volumes, partially offset by higher bleach, hydrochloric acid, and potassium hydroxide volumes.

First quarter 2014 Chlor Alkali segment EBITDA was $59.9 million. Second quarter 2014 Chlor Alkali segment earnings are forecast to improve compared to the first quarter of 2014, but decline compared to the second quarter of 2013. Second quarter 2014 chlorine and caustic soda, bleach, and hydrochloric acid volumes are all expected to improve compared to the first quarter.

The first quarter of 2014 was a difficult operating quarter for Chlor Alkali, but we continue to make progress in our objective of growing the amount of chlorine capacity that is sold as bleach and hydrochloric acid. First quarter 2014 bleach volumes were double the first quarter level of five years ago, and year-over-year volume improvements in both products plus potassium hydroxide, offset most of our year-over-year decline in chlorine and caustic soda.

As we continue to grow these businesses, operating rates in our system will improve and that will improve our profitability. Because of this growth, we're currently evaluating additional investments which would further support our growth. We continue to believe that in a slightly more robust chlorine demand environment, we could operate near capacity in the seasonally strong second and third quarters.

The first quarter of 2014, from a Chemical Distribution perspective was a difficult quarter, and the financial performance of the business was negatively impacted by weather conditions that we experienced continuously throughout the quarter. In the quarter, the business was forced to receive a much larger percentage of caustic soda by rail instead of barge because of the freezing of the river system.

Rail transportation is more expensive to both operate and unload than barges. In addition, the business experienced significantly slower deliveries of rail cars due to the cold, and actually received rail cars in which we had frozen product that required to be thawed out at an additional steam cost.

Finally, the business also experienced lower overall demand as customer operations were negatively impacted by the weather. Absent the weather-related occurrences, we believe the first quarter 2014 financial results would have been similar to the fourth quarter of 2013.

In the first quarter of 2014, caustic soda shipments declined approximately 7% compared to the fourth quarter of 2013, and 33% compared to the first quarter of 2013. In addition to the lower sales volumes, caustic soda selling prices declined 7% in the first quarter of 2014 compared to the fourth quarter of 2013, and 12% compared to the first quarter of 2013. We continue to experience aggressive pricing in the caustic soda market, which is really driven from the large global distributors.

First quarter 2014 bleach sales volumes were similar to both the first and fourth quarters of 2013. In the chemical distribution business, the first and fourth quarters are seasonally weak quarters for all products, but especially bleach.

On a positive note, the financial performance of the business improved as we progressed through the quarter, and was profitable during the month of March. We expect the second quarter 2014 financial performance of chemical distribution to improve compared the first quarter and to be similar to the second quarter of 2013. We expect sales volumes in the second quarter for both caustic soda and bleach to improve compared to the first quarter of 2014.

The business continues to aggressively pursue opportunities to increase the amount of Olin-produced bleach, hydrochloric acid, potassium hydroxide, that sells in the Midwest. The businesses also continue to pursue improvements in logistics, both as a distributor, but also in concert with our Chlor Alkali business. These improvements include the incorporation of distribution trucking capabilities into our Chlor Alkali facilities and the concurrent expansion of our truck-loading capability.

Over the past 15 months we've consistently described an annual synergy opportunity associated with the acquisition of Chemical Distribution business of $35 million. While the realization of the synergies has occurred slower that we would have liked, we continue to see a $35million opportunity.

At the present, we believe the synergy realization will be shared between our Chemical Distribution and our Chlor Alkali business. While the financial performance in Chemical Distribution has not met our expectations, the business has been a positive generator of cash for Olin and during 2013, the after tax cash flow was $30 million. The business was a cash generator also in the first quarter of 2014.

Let me talk about Winchester. Both first quarter 2014 Winchester sales and segment earnings reached the second highest quarter level in the history of the business. First quarter 2014 sales were $200 million, which is 7% higher than the first quarter 2013 sales. Segment income was $38.3 million, a 22% improvement over the first quarter of 2013 level.

Winchester segment EBITDA during the first quarter of 2014 was $42.1 million. The first quarter 2014 year-over-year improvement in sales reflects the combination of higher commercial, military, and law enforcement sales. First quarter 2014 commercial sales volumes increased 12% compared to the first quarter of 2013.

We continue to see strong commercial demand as we move into the second quarter of 2014, but have started to see some products such as shotshell become better supplied. The commercial backlog at March 31, 2014 remained above $400 million, which is consistent with the levels seen throughout most of 2013, and more than triple the pre-surge levels experienced in 2012. As a point of comparison, the pre-surge March 31, 2012 commercial backlog was $137 million.

The first quarter 2014 year-over-year improvement in Winchester segment earnings reflects the combination of both improved volumes and pricing and lower costs. During the first quarter of 2014 the purchase cost of copper and zinc declined compared to the first quarter of 2013, while the purchase cost of lead increased compared to the first quarter of 2013. We currently expect the full year 2014 purchase price for copper to be lower than 2013, and the full year of 2014 purchase price for lead to be higher than 2013 prices.

The centerfire relocation project counts to move forward and generate cost reductions. In the first quarter of 2014, the cost savings realized exceeded $5 million, and we believe the full year 2014 cost savings will be in the $22 to $26 million range.

We expect by the end of the year of 2014, approximately 75% of the 1,000 total jobs will have been -- announced have been relocated will have occurred. We also continue to believe that the full year cost savings realized by the project will be $35 million to $40 million, and that this level of savings will be realized annually beginning in 2016.

Since the fourth quarter of 2012, Winchester has operated with inventory levels below historic norms. The average 2013 quarter-end inventory level was approximately 20% lower than both the 2011 and 2012 average inventory levels and the March 31, 2014 inventory level was consistent with those seen in 2013, and approximately 20% lower than March 31, 2011 and 2012 levels.

In addition, Winchester has also seen the level of its finished goods inventory decline over time. In the first quarter of 2014 the finished goods inventory for centerfire pistol and rimfire declined by approximately 30 million and 15 million rounds respectively. These lower inventory levels will impact second quarter 2014 Winchester sales.

Winchester second quarter 2014 segment earnings are currently forecasted to decline compared to both second quarter 2013 and first quarter 2014. This decline reflects a more historical level of seasonal demand for shotshell. During the second quarter, Winchester expects to sale all the centerfire pistol, centerfire rifle, and rimfire ammunition that can be manufactured. We continue to see very strong demand for these products.

While we forecast second quarter 2014 Winchester segment earnings to be lower than the second quarter of 2013, we also forecast that the Winchester segment earnings in the first two quarters of 2014 will exceed the segment earnings in the first two quarters of 2013. As we look at the Winchester business going forward, we continue to believe that the significant increase in gun ownership that's occurred over the past five years, as well as the increase in the number of people who have become regular target shooters will result in commercial ammunition demand in excess of historic levels.

The combination of an improved demand profile and the full realization of the $35 million to $40 million of cost savings from the centerfire ammunition relocation project makes us continue to believe that the Winchester business can earn, under normal demand conditions, an annual EBITDA of $110 million to $125 million range.

In spite of the challenges our business has faced in the first quarter of 2014, I continue to be encouraged. The Chlor Alkali business is well positioned to benefit from improved economic activity, and continues to consistently improve its bleach and its hydrochloric acid businesses. The chemical distribution business showed improvement late in the quarter and has a much improved second quarter outlook. And finally, the Winchester business continues to operate at record levels.

I believe our Board of Directors demonstrated its confidence in our overall prospects, by not only renewing, but expanding the scope of our share repurchase program. Our full year 2014 EBITDA forecast remains in the $375 million to $425 million range, and at any point in that range would represent the second highest level annual EBITDA in our history.

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

John Fischer - *Olin Corporation - SVP & CFO*

Thank you Joe.

First I'd like to discuss the balance sheet and the first quarter 2014 cash flow. Cash and cash equivalents at March 31, 2014, including the restricted cash associated with the Go Zone financings that are classified as long-term assets on the balance sheet totaled $246.5 million.

During the first quarter of 2014, working capital employed increased by approximately $68 million. Olin typically experiences seasonal working capital growth during the first two quarters of the year of between $50 million and $100 million. The first quarter 2013 working capital increase was approximately $83 million.

We expect additional working capital growth in the second quarter of 2014, and expect for the full year of 2014 that working capital will increase in the $25 million to $35 million range. A portion of the full-year working capital growth assumes the Winchester business will begin to replenish their inventory during the second half of the year.

Capital spending in the first quarter of 2014 was $18.6 million, compared to $30.2 million in the first quarter of 2013. Depreciation and amortization expense during the first quarter of 2014 was $34.2 million. We have reduced our expectations for full-year 2014 capital spending, and are now forecasting that 2014 capital spending will be in the $85 million to $95 million range. We continue to forecast that full-year 2014 depreciation and amortization expense will be in the $135 million to $140 million range.

Now turning to the income statement, selling and administration expenses decreased $5.4 million in the first quarter of 2014 compared to the first quarter of 2013. This year-over-year decrease reflects the combination of decreased stock-based compensation of $3.3 million, primarily related to mark-to-market adjustments and lower legal and legal-related settlement costs of $2.1 million.

First quarter 2014 charges to income for environmental, investigatory, and remedial activities were $3.5 million, compared to $1.8 million in the first quarter of 2013. These charges relate primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites.

Second quarter 2014 expenses for environmental, investigatory, and remedial activities are expected to be in the $3 million to $5 million range. This forecast does not include any recovery of environmental, investigatory, and remedial costs incurred and expensed in prior periods.

On a total company basis, defined benefit pension plan income was $6.4 in the first quarter of 2014, compared to $5 million in the first quarter of 2013. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2014. In addition, under the pension funding 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 for our domestic-defined benefit pension plan for several years. During 2014 we do expect to contribute approximately $1 million to our Canadian-defined benefit pension plan.

During the first quarter of 2014, Olin recorded a pretax restructuring charge of $1 million associated with exiting the use of mercury cell technology in the chlor alkali manufacturing process, and the ongoing relocation of the Winchester centerfire ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi. We anticipate second quarter 2014 restructuring charges of approximately $2.5 million.

The effective tax rate in the first quarter of 2014 was 38.8%, which included $1.6 million of an unfavorable tax adjustment associated with the March 31 change in a state tax law. Excluding this adjustment, the effective tax rate was approximately 35%. We continue to believe that full year 2014 effective tax rate will be in the 35% to 37% range. We also forecast that the 2014 cash tax rate will be in the 25% to 30% range.

During the first quarter of 2014 we repurchased approximately 600,000 shares of Olin stock at a cost of approximately $15 million. Yesterday, Olin's Board of Directors approved a new three year, eight million shares repurchase plan; this plan replaces the three year, five million shares repurchase plan that would have expired July 20, 2014.

We continue to feel confident about our financial condition, and we believe the company is well positioned to generate cash. We expect capital spending to remain below the level of depreciation for the foreseeable future. In addition, between now and the second quarter of 2016, we face less than $25 million of required debt repayments. In addition, we do not face 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, 2014 to shareholders of record at the close of business on May 9, 2014. This is the 350th 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 can 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 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)

Our first question comes today from Frank Mitsch with Wells Fargo. Please go ahead.

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

Good morning, gentleman.

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

Good morning.

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

Joe, as I look at your second quarter guidance it's kind of looking at the first quarter plus the negative delta that you had in Q1 from the adverse weather. As I think about Q2 for Olin, I typically think of a nice seasonal increase, particularly on the bleach side.

You mentioned that you expected ECU to be up sequentially, volumes will be up a bit as well. Although, you did highlight I believe it was three planned outages. So that to me is kind of the big delta. What's the order of magnitude that you're counting on in terms of those outages?

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

Dollar wise?

John McIntosh - *Olin Corporation - SVP, Operations*

Of the three outages, the Henderson outage is a scheduled outage, a week of that outage showed up in this quarter. It's about a $4 million impact to results. The other outages that we were mentioned are nowhere near that significant in length, but they represent lost production volumes during the quarter.

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

So we're in the $4 million to $5 million range with that, Frank.

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

Okay. All right. Obviously you highlighted the disappointments on the Distribution side. When would we anticipate seeing some of those -- I think you had sized the synergies expected of about $35 million by the end of year three. When do you think we'll start seeing that ramp up and show through in the results?

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

Starting in the second half of this year. Second half of this year, Frank

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

All right. Great. What would you anticipate, by the end of 2015 we'll see most of that? That $35 million on top of --

John Fischer - *Olin Corporation - SVP & CFO*

Probably a year behind. Whatever -- so we would have expected to see all of it by the end of '15 and I think we're probably half to two-thirds by the end of '15.

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

And part of that, John, was due to the delays and some of the permitting on some of the equipment. Was there other things that were hindering that?

John Fischer - *Olin Corporation - SVP & CFO*

Those were the primary.

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

The biggest issues were the equipment and the permits.

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

Great. Thank you so much.

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

Thank you.

Operator

Our next question from Don Carson with Susquehanna.

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

Thank you. Question on pricing in Chlor Alkali. You talked about how you expect sequential improvement in ECU I guess driven by caustic. So of that $40 scheduled price increase, we've seen about $15 to $20 in spot. Are you anticipating that you get all of the $40, or at least all of the $40 goes in the benchmark pricing in Q2, and that you get some realization both Q2 and Q3? Just perhaps John you can talk about how you see prices unfolding for Q2 and Q3.

John McIntosh - *Olin Corporation - SVP, Operations*

Let me talk to that. We believe that about half of the $50 increase, which really occurred over three different months, $30, then another $10, and then a subsequent $10. So a net of $50 going back to the early part of the first quarter.

We believe of that $50, somewhere around half of it will ultimately be reflected in benchmark pricing. And so in the subsequent quarter, the majority of the impact of that will show up in our system. We have the opportunity to see some impact for distribution in 30-day accounts towards the end of this quarter, but the majority of it will be in the next quarter.

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

And then on the volumes, what impact did the start up of new capacity have? I know one of those start ups was a merchant customer of yours. So did that have a volume impact as well?

And maybe just talk about the impact of some of the other start ups of new capacity where -- well, they weren't customers of yours but obviously have an impact in the market. Because I noticed overall industry operating rates were in the 83% range in Q1.

John McIntosh - *Olin Corporation - SVP, Operations*

Relative to the industry operating rate, our operating rate wasn't much different than our historical average looking back for the last several years. We didn't really see a significant impact from the new capacity that was -- at least the part of it that was operational during the quarter. It's our understanding that that capacity was a little later than scheduled in starting up.

What we actually saw as we said in the comments that as we ended the quarter we were -- we had significant late lists both on chlorine and on caustic. So the incremental capacity that came on line really wasn't -- really didn't impact us. There just wasn't a huge increase in demand for chlorine and/or caustic, but we did okay because we were late on both products.

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

Then turning to Winchester, Joe, what was the backlog as of December 31, and how firm is that backlog? Because I'm seeing that availability is improving on 9 millimeter, .223 still tight on rimfire, but as availability improves could this backlog evaporate quicker than expected?

John Fischer - *Olin Corporation - SVP & CFO*

Don, the backlog at December 31 was $410 million. So the backlog stayed relatively flat. We have made a conscious effort to keep that backlog as clean as we can make it from the standpoint of eliminating double orders and the types of things that go on during periods where we have surges. So we think that backlog really does represent future sales.

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

Thank you.

Operator

Our next question is from John Roberts with UBS.

John Roberts - *UBS - Analyst*

Good morning.

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

Good morning John.

John Roberts - *UBS - Analyst*

Can you give me a sense of how far out the backlog extends? Would you expect to turn most of it into sales over the next three months, five months? Could you give us some timing sense and put that in perspective with history?

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

It's three quarters long, really which was the biggest amount of it.

John Roberts - *UBS - Analyst*

And it's relatively level over the three quarters?

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

It tapers as you get out to the fourth -- third quarter of that.

John Roberts - *UBS - Analyst*

Okay. And then on the Chlor Alkali side, do you have any sense of the timing of when you might get a chance to look at some of the Dow assets that are being carved out?

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

John, I think what we know is what everybody else knows is without saying is that they're going to have some information later in the -- late in the second quarter, or early third quarter

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John Roberts - *UBS - Analyst*

Thank you.

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

Thank you.

Operator

Next question is from Edward Yang with Oppenheimer.

Edward Yang - *Oppenheimer & Co. - Analyst*

Hi, good morning.

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

Good morning

Edward Yang - *Oppenheimer & Co. - Analyst*

You moderated your CapEx guidance for the year, but Joe, I think you mentioned that you have some additional investments in Chlor Alkali as well. So how do you balance the two comments?

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

If we were going to do an investment in Chlor Alkali, the spending on that would begin very, very late in the year, and we'd see it more in the next year. So it's really not -- it would fit in with the moderated forecast that we gave you for capital.

Edward Yang - *Oppenheimer & Co. - Analyst*

And this is -- this would be geared more I presume on the bleach and HCl side?

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

It would be downs-treamed like that, yes, sir.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. And, Joe, I think you made a comment as well that you're hopeful that as operating rates turn up during the seasonally stronger period that you might revisit chlorine pricing. Would you contemplate a similar type of proposed price increase of $50 a ton, and what's the best-case scenario and the worst-case scenario in terms getting such a price increase implemented in terms of timing?

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

I think where we were in January is we saw demand picking up such that we felt that a $50 ton price increase was justified. And what we're saying on this call, Edward, is that we can see a situation where we could get into a demand situation later in the year which would warrant reinstitution of a price increase in that range.

Edward Yang - *Oppenheimer & Co. - Analyst*

And if I recall the kind of hold out in terms of following your price leadership on the chlorine was Oxy, and they even brought on new capacity. How is that new capacity from Oxy operating? Do you have any visibility there?

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

I probably wouldn't comment on it, Edward.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay.

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

Yes.

Edward Yang - *Oppenheimer & Co. - Analyst*

And switching to Winchester, and on Winchester pricing, is that going to be impacted at all by some of the developments out in Russia? And by that I mean if you look at the store shelves, Russian steel case ammo tends to sell at a discount versus Winchester and Remington? Could that be a potential? I'd like some color there.

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

Your question is is that a potential new market opportunity for us?

Edward Yang - *Oppenheimer & Co. - Analyst*

Or is there any sort of disruptions in domestic imports of Russian ammo, would that help you on the pricing side for Winchester?

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

I think that would help the entire industry.

Edward Yang - *Oppenheimer & Co. - Analyst*

Is there any way to gauge the probability of that at this point?

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

That would be difficult for us to gauge the probability of that. There have been actions in the past against governments and there's several governments right now that are prohibited from shipping product into the United States.

What actions a government takes we certainly don't know. Certainly we're trying to keep a pulse of that. But it is a potential opportunity for the industry.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. Thank you.

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

Thank you.

Operator

Next question is from Jason Freuchtel with SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Hey, good morning.

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

Good morning.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Absent weather-related issues, how did the Chemical Distribution business perform year to date relative to your expectation end of last year? And what is your expectation for when the aggressiveness in the marketplace will return to more normal levels?

John Fischer - *Olin Corporation - SVP & CFO*

I would offer that absent the weather issues, the business performed in the first quarter of 2014 similarly to the way it performed in the fourth quarter of 2013. As we've said, the business is typically weaker in Q4 and Q1. So we forecast and we believe that we will see significant improvement as we move to Q2. I'm not sure we're in a position to comment about the aggressiveness of the pricing and how long it's going to last.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. Aside from the Dow chlor alkali assets that are for sale, how would you characterize the current M&A environment? And would you be more inclined to hold off on increasing the pace of your share repurchases until you get some clarity on some of those opportunities?

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

Well, the M&A environment, as we've talked about in the past, certainly Dow is a humongous M&A opportunity. But there are plenty of opportunities in downstream products that we continue to look at, which on the bleach-related side and distribution side. And I think that your question is a good question, however, if we see an opportunity we certainly are going to pursue it.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you.

Operator

Our next question is from Dmitry Silversteyn with Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good morning. Just returning for a second to Winchester, your guidance for the sort of post move, sustainable EBITDA seems to be a little bit higher than in the past. I think in the past you talked about $100 million, and now it's at $110 million, $125 million.

Can you talk about what changed and how to look at the profitability of the business? Is it greater than $30 million savings on the EBITDA that you're gaining from the move? Is it higher sustainable demand in the market that you're seeing or sustainably higher pricing?

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

It's both. What's happened, Alex, is -- and we've taken that EBITDA, the annualized basis from $30 million up to a $35 million to $40 million range, which is a result of better performance down in Oxford, Mississippi than what we had originally anticipated. So that's a positive for us.

And then second is, is that we believe that post surge, that there's going to be a higher level of demand than what there was. And so when you combine both those together, it puts us in that $110 million to $125 million range of EBITDA.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Got it. That's good news. In terms of KA Steel business, you've had it for a little bit over a year now I guess. Versus the expectations that you had for the business and the environment in which it was operating at the time that you made the deal, where's the shortfall, and I'm assuming it's a shortfall versus the expectation that you had for this business when you bought it.

Outside of the weather in the first quarter, this business has been struggling for much of 2013. Is it all related to the hydrochloric acid price coming down, or is there some other issues, or whether in the market or with KA Steel that are different from how you looked at the world when you were buying the asset?

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

I think that what's a huge difference is the comment that we made about the aggressive pricing environment. And the second piece of it is the delay in our ability to get equipment and permits to get these -- the co-products, which is really what we're interested in distributing, that delay. I think the combination of both those.

Dmitry Silversteyn - *Longbow Research - Analyst*

So the aggressive pricing in the market from a competitive, that there was change in their behavior or you just didn't think that -- I'm just trying to understand what you looked at at the world when you were buying it versus how it's played out.

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

That's changed since when we bought it.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So it's recent in development. All right. And then finally, in terms of transportation costs, freight costs in particular, and then chlorine, how did they change there either sequentially or year over year? And what's the outlook for inflation in shipping costs for 2014?

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

He's asking for transportation costs

John McIntosh - *Olin Corporation - SVP, Operations*

Transportation costs were down year over year slightly, and it was really a combination -- or it was really due to mix, customer mix, and just optimization of our system.

We continue to see moderated pressure on increasing rates, rail rates, especially from the class 1 railroads. But I have no way to predict what the future -- what that's going to look like in the future. But it has moderated from what it's been historically over the past years.

Dmitry Silversteyn - *Longbow Research - Analyst*

Thank you.

John Fischer - *Olin Corporation - SVP & CFO*

Thank you.

Operator

Next question from Herbert Hardt with Monness.

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

Good morning.

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

Good morning

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

I would just ask if these S&A savings, the lower number is going to stay for the year?

John Fischer - *Olin Corporation - SVP & CFO*

Herb, some of the year-over-year change in that is a mark- to-market stock-based compensation. And that purely reflects what happens to the stock price.

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

Since it's down today, that's less

John Fischer - *Olin Corporation - SVP & CFO*

What you're comparing to is what was the change in the stock price, up or down, in the first quarter of 2013 versus what was the stock price change, up or down, in the first quarter 2014.

In the first quarter of '13 the stock was up $3 and something from like $21 to $24. This time it was down about $1.5 from say $28.50 to $27. That creates a $3.5 million year-over-year change. That's really it. So I would be lying if I told you that was sustainable. I hope it's not.

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

Okay. Thank you very much.

Operator

The next question is from Alex Yefremov with Bank of America Merrill Lynch.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Good morning. I think in the past you were talking about your outlook for Winchester's business. You saw sustainably high earnings at least through the first half of 2014. Do you think that visibility window can be moved out further, maybe through the end of 2014? What's the outlook there?

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

I think we could move out about one more quarter, Alex. As we've stated in our comments, the first half of '14 will be better than the first half of '13. We would anticipate a very strong third quarter, which is their normal hunting quarter. I think the question that we don't have visibility now is what will the fourth quarter be. Historically that's the weakest quarter from a Winchester perspective. You know what, we just don't know it sitting here in April.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Got it. Thank you. On the Chlor Alkali side, could you maybe talk about regional U.S. caustic soda market and describe how you see maybe the differences in terms of pricing, supply/demand dynamics, et cetera, maybe could you compare East Coast pricing and Midwest? What do you see?

John McIntosh - *Olin Corporation - SVP, Operations*

I guess the way I would put it, the East Coast pricing really doesn't change much. Gulf Coast pricing we talked earlier about the indexes moving up some part of the $50 increase that's on the table. That's really where the strength for caustic pricing is.

The northeast corridor has really been impacted from caustic coming into this country from Europe. Europe operated, much stronger operating rate in the fourth quarter, and they had some caustic that they exported and so we were competing with that. And that really dampened some of the opportunity for price increases regionally.

There was some improvement in pricing on the West Coast as parcels of imported material from the Far East were late, or just not existent because of reduction in operating rates in the Far East. The southeast is very competitive, but we have seen some improvement in caustic pricing there. So really the strength is, in the caustic pricing area regionally, is in the South, the Southeast and the Gulf Coast.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Got it. Thanks a lot. And then switching back to Winchester, can you talk about from your vantage point, what is the retail availability of you key product? Have you seen any changes over the past three to six months?

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

I think the key thing that we're trying to say in our remarks, Alex, shotshell is available, some calibers are available, rimfire is still not available, and much of pistol is not -- is available. There has been some replenishment but not full replenishment.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Great. Thanks a lot.

Operator

Our next question from [DeForest Henman] with Wolfhausen and Company.

DeForest Henman - *Wolfhausen & Company - Analyst*

Hi. I got on the call a little bit late, so I apologize in advance if this has already been asked. But can you explain the reason for the large increase in hydrochloric acid volumes?

John McIntosh - *Olin Corporation - SVP, Operations*

Well, we have been very aggressively pursuing some of the strong market segments for HCl volume growth with that business in the last several quarters. We were able to have success in metals and refining and in the oil patches, both in Canada and in the Marcellus shale and some of the other shale basins across the country. So those are really the two markets that are driving improved HCl consumption, and our volume growth was just our ability to do that.

We also had additional capacity in our West Coast Henderson operation that came online in 2013. And that volume fits very nicely into the metals and mining market segment, which we were able to use that capacity to gain inroads in.

DeForest Henman - *Wolfhausen & Company - Analyst*

Great. Okay. That's helpful. And then in some other industries when we see pricing of a product declining, we see a tendency of customers to just delay, delay, delay, waiting to get the lowest price. Do you think if we're really getting a little bit more confident in the pricing on the caustic side, that you will start to see some more of those volumes pick up?

John McIntosh - *Olin Corporation - SVP, Operations*

Yes, yes -- -- I mean, we believe as our volumes pick up in the next quarters, the next two quarters, driven partially by increased demand and driven also by our caustic -- our bleach business where we will consume significantly more volume internally in producing bleach in the peak season of the year. We believe that those factors will -- and the continued operating rate environment we're in will create the potential or the opportunity to continue to push caustic pricing.

DeForest Henman - *Wolfhausen & Company - Analyst*

Do we have any way of really knowing how much volumes are either in the distribution channel or would be end-market customers on the caustic side?

John McIntosh - *Olin Corporation - SVP, Operations*

Not really. I mean, we have a sense from our customer base, from the customers that we serve directly and the distributors that we sell to, but there's really no metric available that I know of that tries to quantify caustic throughout the entire supply chain all the way from manufacturer to end user.

DeForest Henman - *Wolfhausen & Company - Analyst*

Okay. Thank you.

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

Thank you.

Operator

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

Richard O'Reilly - *Revere Associates - Analyst*

Thank you. Good morning, still.

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

Good morning.

Richard O'Reilly - *Revere Associates - Analyst*

Joe, in your opening comments for all the volume changes, chlorine and bleach, you ended with a 2% number I thought. Can you just -- I had trouble keeping up with you. Can you go over what that number represents? I think I know what you're driving at, but can you go over that again?

John Fischer - *Olin Corporation - SVP & CFO*

This is John. Recall that chlorine and caustic soda volumes were down 6%. Then we talked about HCl being up 44%. HCl uses chlorine. We talked about bleach being up 6%, that uses both chlorine and caustic soda. And KOH was up 23%, and that essentially is a substitute for caustic soda.

When you translate all that into ECUs produced or sold, we would were lower by 2% year over year.

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

It includes captive plus commercial.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Fine. Okay good. Thank you. So that gives us -- the rates being about 83% ex the problems, that's a more representative of your system than just looking at chlorine down 6%.

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

That's correct. That's where we're making our investments in those downstream products and they're offsetting the commodity products.

Richard O'Reilly - *Revere Associates - Analyst*

Okay, that's what I thought. Can you give the absolute ECU number? I think you just said it was down 8% and that's roughly 520 or so.

John Fischer - *Olin Corporation - SVP & CFO*

That's a number that you'll see in our 10-Q.

Richard O'Reilly - *Revere Associates - Analyst*

Okay, fine. Great. Thanks a lot, guys.

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

Thank you.

Operator

This concludes our question and answer question. I would like to turn the conference back over to Joseph Rupp for any closing remarks.

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

We would like to thank you for joining us today, and we look forward to speaking with you in July when we announce the results of our second quarter. Thank you.

Operator

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