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OLN - Q1 2015 Olin Corp Earnings Call

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OVERVIEW:

Co. reported 1Q15 sales of $518m and net income of $13.1m or $0.17 per diluted share. Expects 2Q15 net income per diluted share to be $0.10-0.15.

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PRESENTATION

Operator

Good morning, and welcome to the Olin first quarter 2015 earnings conference call.

(Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to Joseph Rupp, Chairman and CEO. Please go ahead, sir.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

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

Last night, we announced that net income in the first quarter of 2015 was $13.1 million or $0.17 per diluted share, which compares to $29.5 million or $0.37 per diluted share in the first quarter of 2014. Sales in the first quarter of 2015 were $518 million, compared to $577 million in the first quarter of 2014. First quarter 2015 results included acquisition-related costs of $10.4 million, mark-to-market adjustments on our stock-based compensation expense of $6.9 million, and pre-tax restructuring charges of $1.2 million.

The first quarter of 2015 was a significant one for Olin. We announced a transformational transaction to acquire a significant portion of Dow Chemical's chlor alkali and downstream derivative businesses. In addition, there were positive developments in each of our three businesses. The Chlor Alkali business overcame a series of first quarter customer and company planned and unplanned outages which included a 23-day force majeure on chlorine. We begun the second quarter with operating rates near 90%.

During the first quarter, chlorine prices increased for the first time in four years, and the first quarter 2015 ECU netbacks improved from the fourth quarter 2014 levels. The Chemical Distribution business experienced a turnaround in the first quarter of 2015, when compared to the first quarter of 2014, and it was driven by the increased sale of Olin-produced bleach, hydrochloric acid and potassium hydroxide.

Winchester had a strong first quarter, supported by the growing level of cost savings generated by our ongoing center fire ammunition relocation project. We now expect to realize approximately $35 million of savings from this relocation project during 2015. First quarter 2015 adjusted EBITDA was $71.2 million, and we continue to forecast that the full-year adjusted EBITDA in the $340 million to $380 million range. Second quarter 2015 net income is forecast to be in the $0.10 to $0.15 per diluted share range, which includes pre-tax acquisition-related costs of approximately $8 million, and acquisition financing expenses of approximately $10 million.

Chlor Alkali second quarter earnings are expected to be similar to the first quarter of 2015 segment earnings, as higher ECU netbacks and seasonal improvement in bleach volumes are anticipated to be offset by an approximately $5 million decline in the earnings contribution from hydrochloric acid sales. Costs associated with planned plant maintenance outages will also increase.

Second quarter 2015 Chemical Distribution earnings are expected to be higher than the first quarter of 2015, primarily due to seasonal increase in bleach volumes. In the Winchester business, second quarter 2015 earnings are expected to be comparable with the second quarter 2014 levels. Second quarter 2015 corporate and other expenses are forecast to be similar to the first quarter of 2015, and second quarter 2015 earnings are expected to include restructuring charges of approximately $1 million.

We believe the Chlor Alkali business has reached the trough of this cycle, and during the first quarter of 2015 chlorine prices increased for the first time in four years, and we are experiencing higher operating rates at the same time. The business continues to be strengthened by increased production and sale of co-products. In the Chemical Distribution business, we are experiencing increased demand for, and shipments of Olin-produced bleach, hydrochloric acid, and potassium hydroxide year-over-year. First quarter Chemical Distribution shipments of hydrochloric acid, potassium hydroxide were both quarterly records.

The outlook for the Winchester business in 2015 and beyond continues to be positive, and we believe that commercial ammunition demand will remain above the levels experienced prior to the surge that began in late 2012. These prospects for Winchester are being enhanced by the ongoing centerfire ammunition relocation project.

We continue to expect segment earnings in all three businesses to improve in 2015, compared to 2014. I've never been more optimistic about the prospects for Olin. Our recently announced agreement to acquire a significant portion of Dow's chlor alkali and downstream derivatives businesses will create a broader, long-term business platform with significant synergy and growth opportunities.

The Dow businesses are complementary to our existing assets, and will create an industry-leading Chlor Alkali and Chlorine derivatives company with significant scale. Olin will be less cyclical, as we expand from three primary chlorine products that we have today, through acquiring these businesses that will put chlorine into 18 products. The opportunity for Olin to combine its Chlor Alkali operations with Dow's businesses allows us to take our business to the next level. These complementary assets will provide substantial opportunities to optimize and enhance the operating capabilities and financial returns on these assets, which is expected to lead to significant incremental shareholder value. I'd like to turn the call over to our President and Chief Operating Officer, John Fischer, who will discuss the businesses in more detail. John?

John Fischer - *Olin Corporation - President & COO*

Thank you, Joe. Let me begin with Chlor Alkali. During the first quarter of 2015, the ECU netback was approximately $505 per ton, compared to approximately $520 per ton in the first quarter of 2014, and the fourth quarter of 2014 level of approximately $490 per ton. Both chlorine and caustic soda prices improved sequentially from the fourth quarter. In the second quarter of 2015, we expect ECU netbacks to increase, compared to the first quarter of 2015, and the second quarter of 2014 levels.

The sequential improvement in ECU netbacks reflects chlorine pricing. Chlorine price indices increased $20 per ton in March 31, 2015, which is the first increase in the chlorine price index since the second quarter of 2011. We expect additional increases in chlorine prices to occur, as the industry answers the seasonally stronger second and third quarters. Chlorine demand in our system has been strengthening going into this traditionally stronger demand period.

A combination of customer outages and Olin planned and unplanned outages, resulted in first quarter 2015 chlorine shipments declining 15% compared to the first quarter of 2014. Several of our larger chlorine customers had planned and unplanned maintenance outages, and during a scheduled maintenance outage at our McIntosh, Alabama facility, we determined that additional maintenance work was required beyond what was anticipated. This additional work caused the outage to be extended by approximately 10 days.

Primarily as a result of this extended outage, our first quarter 2015 operating rate of 81% was lower than was originally forecast. The estimated incremental costs of the McIntosh outage in the quarter was $4 million to $5 million. As we said, chlorine demand in our system has been strengthening going into our traditionally stronger second and third quarters, which are driven by higher seasonal bleach demand. As a result, we expect the Chlor Alkali operating rate to improve to the 85% to 90% range for the second quarter.

The second quarter of 2015 operating rate forecast includes maintenance outages at the Henderson, Nevada, and Niagara Falls, New York facilities. The estimated cost of these outages is in the $5 million to $7 million range. As Joe mentioned earlier, we believe that the Chlor Alkali cycle has reached a trough level. A typical chlor alkali cycle improvement is led by improved demand for chlorine, which is reflected in improved operating rates, and ultimately higher chlorine prices. We believe the industry is slowly moving in that direction.

First quarter 2015 shipments of hydrochloric acid decreased 3%, compared to the first quarter of 2014, and potassium hydroxide shipments decreased 12% from the record first quarter of 2014 level. First quarter 2015 shipments of bleach were similar to the first quarter of 2014. First quarter 2015 hydrochloric acid prices increased, compared to the first quarter of 2014 levels, which contribute to an approximately $5 million year-over-year improvement in segment earnings.

Due to weaker demand, which is also negatively impacting product pricing, we expect the second quarter 2015 product profit contribution from hydrochloric acid to decline approximately $5 million from first quarter levels. I would emphasize that we continue to be able to sell hydrochloric acid at a premium to the price of chlorine. A key objective in the Chlor Alkali business continues to be growing the amount of our chlorine capacity [as salt], as bleach and hydrochloric acid. Over the past five years, our bleach volumes have grown at a compound annual growth rate of 10%, and hydrochloric acid volumes have grown at a rate of 9%.

First quarter 2015 Chlor Alkali segment earnings of $23.1 million decreased, compared to $34.3 million in the first quarter 2014, primarily due to lower chlorine and caustic soda volumes, and lower ECU netbacks, partially offset by higher hydrochloric prices, and lower manufacturing and other costs. Chlor Alkali segment EBITDA during the first quarter of 2015 was $48.3 million. Chlor Alkali second quarter earnings are expected to be similar to the first quarter of 2015 segment earnings, as higher ECU netbacks and seasonal improvement in bleach volumes are anticipated to be offset by an approximately $5 million decline in earnings contributed by hydrochloric acid sales, and costs associated with planned maintenance outages.

Now turning to Chemical Distribution. The financial performance for Chemical Distribution in the first quarter of 2015 was a significant turnaround, compared to the first quarter of 2014, and was fueled by the growth in shipments of Olin-produced bleach, hydrochloric acid and potassium hydroxide.

During the first quarter of 2015, the business achieved record levels of quarterly shipments of hydrochloric acid and potassium hydroxide. We are encouraged that we are gaining traction selling, these products to our distribution customer base. Increased sales of these co-products will be a key component in the continued improvement of Chemical Distribution profitability as we move forward.

In the first quarter of 2015, caustic soda shipments in the distribution business were similar to the first quarter of 2014 levels. In the Chemical Distribution business, sales of caustic soda and bleach are seasonally weaker in the first and fourth quarters. Chemical Distribution first quarter 2015 earnings were $1 million, compared to a loss of $800,000 in the first quarter of 2014. The increase in earnings is the result of higher shipments of hydrochloric acid and potassium hydroxide.

First quarter 2015 Chemical Distribution segment EBITDA was $4.9 million. We expect the second quarter 2015 financial performance of the chemical distribution business to improve, compared to the first quarter of 2015, and the second quarter of 2014. We expect sales volumes in the second quarter to increase compared to the first quarter, due to the seasonal increase in bleach, and we expect to see continued earnings contributions from Olin-produced hydrochloric acid and potassium hydroxide.

As a result of the growth in bleach, hydrochloric acid, and potassium hydroxide sales, and the continued focus on improving the returns in caustic soda, we continue to expect that the EBITDA generated by the Chemical Distribution business in 2016, will be double 2014 levels. In addition to the growth in chemical distribution segment EBITDA, we expect the Chlor Alkali business to realize $10 million to $15 million of annual benefit beyond the chemical distribution EBITDA, from producing co-products, as well as from logistics and infrastructure cost savings.

Now turning to Winchester. Winchester had a strong first quarter. Segment earnings benefited from the continued growth and cost savings from our centerfire ammunition relocation project, which partially offset the expected decline from surge levels of commercial ammunition sales.

During the first quarter of 2015, the cost savings realized exceeded $8 million, and we now believe the full year 2015 cost savings will reach approximately $35 million. These savings in 2014 were $24 million. We also believe the annual cost savings realized from the project when completed will reach $40 million, and that this level of annual savings will be realized beginning in 2017.

Winchester experienced a 5% decline in ammunition shipments in the first quarter of 2015, compared to the first quarter of 2014. But the level of commercial ammunition demand experienced was significantly higher than the pre-surge demand. As a point of reference, first quarter 2015 commercial volumes were 14% higher than the first quarter of 2012 levels, which was the last non-surge first quarter. The strength of the business is reflected by the commercial backlog, which at the end of the quarter was in excess of $280 million, which was more than double the pre-surge March 31, 2012 commercial backlog of $137 million. As we discussed in the fourth quarter, consumer demand for pistol, shotshell and rifle ammunition while below surge levels, remained robust.

Segment earnings for the first quarter of 2015 were $29.8 million, compared to $38.3 million in the first quarter of 2014, which was a record first quarter earnings. Winchester segment EBITDA during the first quarter of 2015 was $33.9 million. The first quarter 2015 year-over-year decline in segment earnings reflects the lower level of demand for pistols, shotshell and rifle ammunition, partially offset by lower commodity and other material costs, and decreased operating costs.

During the first quarter of 2015, the purchase cost of copper declined compared to the first quarter of 2014, while the purchase cost of lead and zinc increased, compared to the first quarter of 2014. The net effect was a reduction in year-over-year commodity costs. We currently expect the full year 2015 purchase price for copper to be lower than the 2014 price, and the full-year 2015 purchase price for lead and zinc to be higher than the 2014 price.

We are still confident that commercial ammunition demand will remain higher than the levels experienced prior to the surge that began in 2012. We expect that ammunition volumes in the second half of 2015 to experience a year-over-year improvement compared to 2014, and that combined with the relocation cost reductions will result in improved Winchester segment earnings in 2015, compared to 2014. Now I would like to turn the call over to our Chief Financial Officer, Todd Slater, who will review several financial matters with you.

Todd Slater - *Olin Corporation - VP & CFO*

Thanks, John. First I'd like to discuss the balance sheet and the 2015 cash flow. Cash and cash equivalents at March 31, 2015 totaled $196.8 million, compared to $242.9 million at March 31, 2014.

During the first quarter of 2015, working capital employed increased by approximately $53 million. This is consistent with our normal pattern. Olin typically experiences seasonal working capital growth during the first two quarters of the year of between $50 million and $100 million, followed by decreases in the second half of the year. The first quarter of 2014 working capital increase was approximately $68 million.

Capital spending in the first quarter of 2015 was $23.3 million. Depreciation and amortization expense in the first quarter of 2015 was $34.4 million. In 2015, continue to forecast a capital spending will be in the $120 million to $130 million range, and that depreciation and amortization expense will be in the $140 million to $145 million range. During the first quarter, Olin repaid $1 million of term loan debt that matured under the amortization schedule. During 2015, there will be $16.4 million of payments on maturing debt.

Now turning to the income statement. In the first quarter of 2015, included acquisition costs of $10.4 million associated with advisory, legal, accounting and other professional fees. Interest expense included $400,000 for financing fees.

In the second quarter of 2015, we expect acquisition-related costs of approximately $8 million, and acquisition financing expenses of approximately $10 million to be included in interest expense. Selling and administration expense increased by $3.5 million in the first quarter of 2015, compared to the first quarter of 2014. This year-over-year increase was primarily due to higher stock-based compensation expense of $7.6 million, which includes mark-to-market adjustments, partially offset by lower legal and legal-related settlement costs of $1.4 million, and decreased consulting fees of $1 million.

The mark-to-market adjustments associated with stock-based compensation reflects the approximately $9 per share increase in the Olin stock price experienced in the first quarter of 2015. Each dollar change in the stock price increases or decreases selling and administration expenses by approximately $750,000. In the first quarter of 2014, the stock price decreased approximately $1.50 per share. Selling and administration expenses as a percentage of sales were 9% in the first quarter of 2015, compared to 8% in the first quarter of 2014.

First quarter 2015 charges to income for environmental, investigatory and remedial activities were $700,000, compared to $3.5 million in the first quarter of 2014. These charges related primarily to expected future investigatorial and remedial activities associated with past manufacturing operations, and former waste disposal sites. Second quarter 2015 expenses for environmental, investigatory and remedial activities are expected to be in the $2 million to $4 million range. This forecast does not include any recovery of environmental, investigatory and remedial costs, incurred, expensed in prior periods.

On a total Company basis, defined benefit pension plan income was $5.8 million in the first quarter of 2015, compared to $6.4 million in the first quarter of 2014. The decrease in pension income was primarily due to the newly-mandated mortality tables issued in the fourth quarter of 2014 by the Society of Actuaries. As a result of these new mortality tables, we now expect 2015 defined benefit pension plan income will be approximately $2 million lower than 2014. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2015. However, during 2015, we do expect to contribute approximately $1 million to our Canadian defined benefit pension plan.

During the first quarter of 2015, Olin recorded a pre-tax restructuring charge of $1.2 million associated with permanently closing a portion of the Becancour, Canada chlor alkali facility, and the ongoing relocation of the Winchester centerfire ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi. We anticipate second quarter 2015 restructuring charges of approximately $1 million.

The effective tax rate in the first quarter of 2015 was 33.2%. We continue to believe that the full-year 2015 effective tax rate will be in the 34% to 37% range. On April 23, 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, 2015 to shareholders of record at the close of business on May 11, 2015. This is the 354th 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 estimates of future performance. Clearly, these statements are forward-looking, and results could differ materially from those projected. Some factors that could result -- could cause actual results to differ from, are described without limitations in the "Risk Factors" section in our most recent Form 10-K, and in 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

(Operator Instructions)

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

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

Hey, good morning, gentlemen, and nice start to the year.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thank you.

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

Hey, Joe, I know it's only been a month, but I have to ask, what your latest and greatest thoughts are on the RMT with Dow? Where do you think the approval processes stand? When do you think that you may be able to finish it up, and has there been anything positive or negative that has surfaced over the past month, as you've gone through this process?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

I would say only positive going -- as we continue to look at the future for the combined entity, Frank. From a transaction perspective as we talked about, it will close in the late third quarter, sometime in the fourth quarter. You have the three things of regulatory approvals, the tax approval, Olin shareholder vote, and the financing, all the stuff that has to happen before we close. But we're fully confident it's going to close this fall, so, and looking forward to that moment.

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

All right. Terrific. Thank you. And I just -- I had a clarification on the guidance for Q2, with respect to Chlor Alkali, because you're guiding it to be flat. And I believe when John went through it, he was talking about the planned incremental maintenance being $5 million to $7 million -- or the I'm sorry, the planned maintenance being $5 million to $7 million. I believe the incremental maintenance in addition to what you thought at -- you'd spent in McIntosh was $4 million to $5 million.

So just a few million dollar difference there, and then, of course, you did mention the HCl impact, negative impact of $5 million. So call it, I don't know, $7 million or $8 million, from those sort of items. But you're talking about better operating rates. You're talking about better ECU pricing which is always -- which is always nice to hear. Where might the delta be, in terms of -- in terms of why you're thinking it would only be kind of flat with the Q1 level?

John Fischer - *Olin Corporation - President & COO*

Frank, if you look at the pattern that we have in terms of our electricity costs, they are typically quite a bit higher in the second and third quarters. So Q1 to Q2, there's a big change negatively in electricity.

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

All right. That's the delta there then. All right. Thank you so much.

Todd Slater - *Olin Corporation - VP & CFO*

Thank you.

Operator

Our next question comes from Christopher Butler of Sidoti & Company. Please go ahead.

Christopher Butler - *Sidoti & Company - Analyst*

Hi, good morning, everyone.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Good morning.

Christopher Butler - *Sidoti & Company - Analyst*

I was hoping that you might be able to walk us through the chlor alkali pricing environment. You talked about the chlorine price increase. There's caustic soda talk going on as well. Could -- give us your outlook here, as this second quarter progresses?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Sure.

John McIntosh - *Olin Corporation - SVP of Chemicals*

This is John, Chris. Let's talk about caustic first. We don't see -- even though we've announced -- the industry has announced price increases every quarter for as far back as short-term memory exists, we have yet to see any of those price increases be accepted into the marketplace. And as we look at caustic prices going forward, there's a set of price increases that have been announced that are out there now, that there appears to be just no acceptance of caustic in our system. It's balanced to slightly long, and that's with some of the outages that we had in the first quarter. And when you look at the rest of the industry, there were a lot of scheduled producer outages also in the first quarter. So even with all of that, we don't see -- we aren't seeing caustic tight enough to help drive any price increases.

Chlorine is different. We finally have seen strength in chlorine, and that has translated into the first time in four years where we've actually seen chlorine prices -- price increases stick in the market place. So we're predicting -- we are forecasting an improvement. That's helping drive our ECU pricing improvement between first quarter and second quarter. We're predicting that will continue, and we will see some additional chlorine pricing improvement in the second half of the year.

Christopher Butler - *Sidoti & Company - Analyst*

And as far as the chlor alkali business, could you talk about the impact of falling oil prices here over the last six months? Anything with the hydrochloric maintenance going on here, that's tied in with the lower oil or reduced demand?

John McIntosh - *Olin Corporation - SVP of Chemicals*

That's the place we've probably seen the most impact to our business is in the oil fields. Rig counts are low in the oil fields now as they have been since 2010, and the exact number is different depending upon which source you look at. But just at a macro level, the rig count is low. There are a lot of rigs that are -- or a lot of wells that are down.

The wells that are operating are much more efficient, and they're much better able to control how often they need to frack those wells to keep them operating. And so that's just led to -- that's been the net effect in the oil fields of the change in oil prices, and we've seen it in our HCl business. And although in the first quarter, we did hold on to volumes pretty well, we did see weakness in price, and we'll see that really manifest itself in second quarter pricing in the oil field. And as we mentioned in our remarks, that impact alone is about a $5 million hit to our second quarter forecast.

Christopher Butler - *Sidoti & Company - Analyst*

Would there be a corresponding hit to the distribution business from that outage as well?

John McIntosh - *Olin Corporation - SVP of Chemicals*

Our Distribution business is not typically is focused on selling into the oil patch, as we are in Chlor Alkali. They have a much broader spectrum of small volume users that they are servicing. So we don't expect to see the same price or volume impact in the Distribution segment.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thanks.

Operator

Our next question comes from Jason Freuchtel of SunTrust. Please go ahead.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Hey, good morning, gentlemen.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Good morning.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Does your guidance for 2Q '15 corporate and other expenses assume the stock-based compensation expense will be similar to the experience in 1Q?

Todd Slater - *Olin Corporation - VP & CFO*

No, but we have -- no, this is Todd. No, that's not what we're guiding, but we're saying the overall costs will be comparable. We are saying that environmental costs will be up from the first quarter to second quarter. I think the first quarter was $700,000. We're saying the second quarter will be $2 million to $4 million.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. But if I -- if the stock-based compensation increased $6.9 million, and say, it doesn't really increase that much in 2Q, should you see maybe a potential benefit, relative to what you're guiding to?

Todd Slater - *Olin Corporation - VP & CFO*

Our guidance is that we think they will be comparable.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. Fine. Thank you. And how much did the force majeure impact the operating rate in 1Q?

John McIntosh - *Olin Corporation - SVP of Chemicals*

The -- it was about a 3% to 3 1/2% impact on our operating rates associated with the outage at McIntosh

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Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. And it sounded like you don't think that the caustic increases will go through in the market. What is your view on, if the chlorine operating rate remains high, could there be a potential decline in caustic pricing?

John McIntosh - *Olin Corporation - SVP of Chemicals*

Well, if you look historically, when the industry has reached an inflection point, a low inflection point in the market and started to recover, chlorine has typically led that recovery both in terms of volume and price, and that has, as a natural consequence puts some pressure on caustic pricing. We believe that if that's -- if that is what plays out this time, there will be some pressure. But we don't forecast that the pressure will be significant enough to negate the chlorine pricing opportunity that will be in front of us.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Yes, I think the most important thing as we've said, ECU pricing, the total ECU pricing improved fourth quarter to the first quarter, and is going to improve first quarter to second quarter, which means that chlorine is going to overcome some of the decline in caustic.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. Great. Well, thank you.

Operator

Our next question comes from Herb Hardt of Monness. Please go ahead.

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

Good morning. My question relates to the combined entities. Once the transaction with Dow takes place, how much of your product will be outside the US?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

About 35% -- ?

Todd Slater - *Olin Corporation - VP & CFO*

Of our revenue will be outside --

John McIntosh - *Olin Corporation - SVP of Chemicals*

(Multiple Speakers) Yes, outside of the US.

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

35% of the chlorine costs outside. Okay, great. Thank you very much.

John Fischer - *Olin Corporation - President & COO*

No, 35% of the revenue of the combined entity will be outside the United States.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Right.

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

Great. Thank you very much.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

You're welcome.

Operator

Our next question comes from Don Carson of Susquehanna. Please go ahead.

Bobby Geornas - *Susquehanna Financial Group - Analyst*

Hi, good morning. This is Bobby Geornas in for Don Carson. So you mentioned that Q1 tightness in caustic has yet translate into higher caustic pricing. But it seems that at least in the second half of April, there was some additional tightness. Do you believe that you get any sort of price increase on the caustic side, maybe in the second half of the year? And does your full-year guidance assume any type of pricing improvement for caustic, or do you just assume that's flat?

John McIntosh - *Olin Corporation - SVP of Chemicals*

Well, from the standpoint of -- we have seen export pricing go up in the second half of April, which is -- has at times in the past been a precursor to actually seeing contract prices move. Whether contract prices move or not, is at this point in time something that I wouldn't predict, because there's so many variables associated with it. We would believe overall, the second half of the year will be -- will reflect improved ECU pricing, and how that falls out between chlorine and caustic is just yet to be seen.

Bobby Geornas - *Susquehanna Financial Group - Analyst*

Okay. And early in the year, you guided in the $340 million to $380 million in EBITDA for the full year, which included the $6 million of restructuring charges. Are you adjusting for the incremental acquisition costs in your latest guidance?

John Fischer - *Olin Corporation - President & COO*

Yes, we are.

Bobby Geornas - *Susquehanna Financial Group - Analyst*

Okay. Thank you.

Operator

And our next question comes from John Roberts of UBS.

John Roberts - *UBS - Analyst*

Good morning. It sounds like the Winchester outlook is better for the year, and the first quarter adjusted EBITDA was in line. So why aren't you raising the adjusted EBITDA guidance for the rest of the year?

John Fischer - *Olin Corporation - President & COO*

Why, I think, John, if you looked at the full year, and you looked at what the second quarter guidance is, it suggests that the second half in Chlor Alkali needs to be stronger, and that's based on price increases that are not quite in place yet. So we're being cautious.

John Roberts - *UBS - Analyst*

Okay. And then, what's the outlook for chlorine outside of bleach and hydrochloric right now, things like TiO2 and urethanes, et cetera?

John McIntosh - *Olin Corporation - SVP of Chemicals*

We believe that those segments will see improvement over the first quarter both, especially urethanes. We had a lot of customers in the urethane segment that had planned outages in the first quarter. We believe that, we'll see improvement in the seasonal part of some of those businesses. We'll see improvement in the construction season, and so we're forecasting improve demand from those segments in the second half of the year.

John Roberts - *UBS - Analyst*

Okay. I'll get back in the call. Thank you.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thanks.

Operator

Our next question comes from Dmitry Silversteyn of Longbow Research. Please go ahead. I believe he removed himself from the queue.

Our next question comes from Arun Viswanathan from RBC. Please go ahead.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Great, thanks, guys. I guess, yes, my question is also on the pricing environment. I guess, I'm trying to understand the chlorine move. What do you think is driving the near-term strength in chlorine? Is it seasonality from constructions markets? Do you have any confidence that this could persist greater than the second quarter kind of restocking?

John McIntosh - *Olin Corporation - SVP of Chemicals*

Well, we -- yes, we do, and like I said, we believe that overall ECU pricing will reflect improved chlorine, and flat to maybe slightly declining caustic price. But net-net, we will see overall ECU pricing improvement in the second half of the year. And we believe that will be driven by the typical segments that we see recovery occur first in, which are the ones that are associated with infrastructure, vinyls, urethanes, TiO2. And that's the best information we have. We also believe as things have settled out in the export markets, that North American chlorine derivative producers will be in a position to support export markets around the world.

We're still the lowest cost place to produce these derivatives. And although the information is only available for January of this year, because of this lag in reporting, we have seen chlorine equivalents improve in the first month of the year relative to a year ago, from an export standpoint. So as we look forward, we believe we'll see strength across that broad segment, set of segments.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. Thanks. And I guess, similarly looking out longer-term, we've had a lot of fits and starts to ECU margins over the last couple of years. It seems like we get some momentum on chlorine, but then that's dissipated on the caustic side. Is there anything that's different that's going on right now, that leads you to really believe that ECU margin will be higher? Or what are those components in the second half, and potentially in 2016?

John McIntosh - *Olin Corporation - SVP of Chemicals*

Well, I can think of a couple things. We're seeing strength in operating rates. We have seen some capacity rationalization across the industry, and we think that's in part, what's providing a tighter operating rate environment. We also are quite frankly, have seen over the last couple of years a significant amount of chlorine that used to service the merchant market withdrawn from that, to service the HCl burners that are being invested in by other on-purpose acid producers.

And so, we believe that there's some change in the -- in chlorine going into the merchant market as a result of that. So those are the things that are different in the last couple years. We believe they'll manifest towards a difference in the pricing environment.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. That's helpful. Just as a follow-up, with the lower oil and gas activity, is there any risks that we're oversupplied ultimately on the HCl side, looking out over the next couple of years?

John McIntosh - *Olin Corporation - SVP of Chemicals*

I believe we're already seeing, at least on the pricing side, the impact of all of the HCl capacity that's come online in the last couple of years. And I think the big flywheel in that is what the by-product guys are doing, and how they're running their plants, and how much by-product acid is making it to the market.

But we believe, over that period of time, all those balances will work themselves out, and that we're not at a point where there is a significant amount of downside in front of us. But we're at a point, where that market is stabilized, and we should start to see some gradual improvement.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. Thanks.

Operator

Our next question comes from Dmitry Silversteyn of Longbow Research. Please go ahead.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good morning, guys. Hopefully, this time I pressed the right button and you can hear me.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

We can hear you.

Dmitry Silversteyn - *Longbow Research - Analyst*

Great. Just want to make sure I heard you correctly, did you say that the chlorine pricing was up about $20 a ton sequentially, in the first quarter versus the fourth? Or is that what you're expecting to be up in the second quarter versus the first?

John Fischer - *Olin Corporation - President & COO*

We said that the index was up in the first quarter $20, compared to the index at the end of the year.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got you. Got you. And then, typically you guys lag by about a quarter I think, is that correct on the index?

John Fischer - *Olin Corporation - President & COO*

Yes, we said qualitatively chlorine pricing was better in Q1 for us than Q4. We didn't give a number. We just gave the index change.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got you. Got you. Fair enough. And as far as HCl pricing, is the only thing impacting the sort of the level of demand and the level of pricing in that business, the change in demand from the fracking and the drilling market? Or are there other areas where that's putting pressure either on pricing, or is there a new capacity that's coming online that's putting upward pressure on supply?

John McIntosh - *Olin Corporation - SVP of Chemicals*

Steel, the HCl consumed in steel has been down. There is steel imports coming into this country, part of it's [drifted] by currency. But that's removed some demand in the short-term from the steel side. There's also been some change in demand on the food side as well. But I'd say probably, the biggest demand change for HCl has been associated with oil and gas, but not the only demand change.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got you. And then just, I guess both -- I don't know if I call it a theoretical question or a modeling question. But your utilization rates were up sort of meaningfully in the low 80%s, versus where they were a year ago, but chlorine pricing was up sequentially, but you just didn't see that lever, in terms of operating margin on the chlor alkali side of the business. So can you -- one of thesis that's been put forward by you, is that the higher chlorine pricing, even if they're offset by the lower soda pricing, will still be positive for you, because it implies high utilization rates, and therefore higher fixed cost absorption and incremental margins. So it should still be positive for March, and that didn't seem to play out in the first quarter. So can you sort of talk about what held you back, and how we should think about that going forward?

John Fischer - *Olin Corporation - President & COO*

Well, the operating rate, Dmitry was 81% in the first quarter, which is below the point in time, or the point where we've said that occurs. We really talked about that leverage point of being, running consistently above -- in the 88% to 90% range. So while we're positive in terms of the movement of operating rates, we haven't really reached the point where I'd say, we're at optimal from the fixed cost absorption and a profitability standpoint.

Dmitry Silversteyn - *Longbow Research - Analyst*

So the real leverage is going to come in the second and third quarters, when you get utilization rates up into the hopefully, high 80%s, if not low 90%s?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

That's correct.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. All right. Thank you.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thank you.

Operator

And next we have a follow-up from John Roberts of UBS. Please go ahead.

John Roberts - *UBS - Analyst*

Thank you. Have you said anything yet, in terms of how you tend to be -- you intend to be organized, once you close the Dow transaction, how many segments you might have? I know Winchester will still be separate, but on the Chemical side, how do you think you'll be structured?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

John, we have not made any public statements with regard to that. As you know, we're still dealing with the regulatory agencies, et cetera, but at the appropriate time, we will talk about that.

John Roberts - *UBS - Analyst*

Okay. Thank you.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

You're welcome.

Operator

Our next question comes from James Finnerty of Citigroup. Please go ahead.

James Finnerty - *Citigroup - Analyst*

Good morning.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Good morning.

James Finnerty - *Citigroup - Analyst*

Just one quick credit question. In terms of the balance sheet, I believe you've stated where you would like to get leverage over time. But in the longer-term, would you target investment grade ratings, and do you think this -- your business mix would warrant that from the agencies?

John Fischer - *Olin Corporation - President & COO*

I think we believe that over the long haul after the Dow acquisition is complete, and we worked through the capital spend, and we talked about that's incremental to achieve synergies in the transition costs, we would be in a position to achieve investment grade -- (multiple speakers) -- metrics for sure, and we'd have to see.

James Finnerty - *Citigroup - Analyst*

Okay.

John Fischer - *Olin Corporation - President & COO*

We're not going to run the business on the basis of achieving investment grade rating.

James Finnerty - *Citigroup - Analyst*

And if the agencies asked, would -- if the agencies asked if you want to obtain change investment grade ratings, if that is was a strategic objective, would the answer be yes or no?

John Fischer - *Olin Corporation - President & COO*

The answer would be, we aspire to run the business with investment-grade metrics.

James Finnerty - *Citigroup - Analyst*

Got you. And just one follow-up. I know this question was asked on the March call. But I know the Winchester segment will be part of Olin for the next two years post the transaction. But longer-term, is there potential for that to be no longer a part of Olin, because in the past you've stated that, if the right transaction came along, and it was big enough that you would consider divesting of Winchester?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

The key part of that, was we would get rid of it, if we needed it, to help finance the transaction.

James Finnerty - *Citigroup - Analyst*

True.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

It turns out, we don't need it to finance the transaction. And I think it is always an option for us. But as we've said, it's got a low tax basis. So the real issue there is to make sure that we would make a value-creating transaction. So that's certainly something, we will always think about.

John Fischer - *Olin Corporation - President & COO*

But it is performing at a very high level.

James Finnerty - *Citigroup - Analyst*

Okay. Thanks very much.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thank you.

Operator

Our next question is a follow-up from Arun Viswanathan from RBC. Please go ahead.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thanks, guys. I just had a question about your commentary on the export side. Is it the case that you're seeing -- can you comment on what you're seeing regionally? I guess, most of the intelligence out there, is that Latin America is still pretty challenging. Have you seen a shift there, or is this a shift in Europe, or to Asia? Or where are you seeing the strength on the export side?

John McIntosh - *Olin Corporation - SVP of Chemicals*

You talking about export caustic?

Arun Viswanathan - *RBC Capital Markets - Analyst*

Right, exactly.

John McIntosh - *Olin Corporation - SVP of Chemicals*

We have really not seen much change. The export markets that North America typically serves, are typically the South American, Brazilian markets, and that's continued to be the case. Export caustic numbers, volumes have been really flat over the first quarter, relative to last year first quarter. So we haven't seen much change, and really there's not been much change in the markets that have traditionally been served by exports either.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. I just -- I thought you said that, that there was some improvement on the pricing in the second half of April, and that would ultimately translate to contract going up?

John McIntosh - *Olin Corporation - SVP of Chemicals*

I was talking about chlorine derivative exports.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Right. Okay.

John McIntosh - *Olin Corporation - SVP of Chemicals*

Not caustic, when I said that.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thanks.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Okay.

Operator

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

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thank you for joining us today, and we'll look forward to reporting the results of the second quarter in July. Thank you.

Operator

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

Editor

FORWARD-LOOKING STATEMENTS

This communication includes forward-looking statements. These statements relate to analyses and other information that are based on management's beliefs, certain assumptions made by management, forecasts of future results, and current expectations, estimates and projections about the markets and economy in which we and our various segments operate. These statements may include statements regarding the proposed acquisition of certain chlor alkali and downstream derivatives businesses from TDCC using a "Reverse Morris Trust" structure, the expected timetable for completing the transaction, benefits and synergies of the transaction, and future opportunities for the combined company following the transaction. The statements contained in this communication that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties.

We have used the words "anticipate," "intend," "may," "expect," "believe," "should," "plan," "project," "estimate," "forecast," "optimistic," and variations of such words and similar expressions in this communication to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from those matters expressed or implied in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise. Relative to the dividend, the payment of cash dividends is subject to the discretion of our board of directors and will be determined in light of then-current conditions, including our earnings, our operations, our financial conditions, our capital requirements and other factors deemed relevant by our board of directors. In the future, our board of directors may change our dividend policy, including the frequency or amount of any dividend, in light of then-existing conditions.

The risks, uncertainties and assumptions involved in our forward-looking statements, many of which are discussed in more detail in our filings with the SEC, including without limitation the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2014, include, but are not limited to, the following:

sensitivity to economic, business and market conditions in the United States and overseas, including economic instability or a downturn in the sectors served by us, such as ammunition, vinyls, urethanes, and pulp and paper, and the migration by United States customers to low-cost foreign locations;

the cyclical nature of our operating results, particularly declines in average selling prices in the chlor alkali industry and the supply/demand balance for our products, including the impact of excess industry capacity or an imbalance in demand for our chlor alkali products;

economic and industry downturns that result in diminished product demand and excess manufacturing capacity in any of our segments and that, in many cases, result in lower selling prices and profits;

new regulations or public policy changes regarding the transportation of hazardous chemicals and the security of chemical manufacturing facilities;

changes in legislation or government regulations or policies;

higher-than-expected raw material and energy, transportation, and/or logistics costs;

costs and other expenditures in excess of those projected for environmental investigation and remediation or other legal proceedings;

unexpected litigation outcomes;

the failure or an interruption of our information technology systems;

the occurrence of unexpected manufacturing interruptions and outages, including those occurring as a result of labor disruptions and production hazards;

adverse conditions in the credit and capital markets, limiting or preventing our ability to borrow or raise capital;

weak industry conditions could affect our ability to comply with the financial maintenance covenants in our senior revolving credit facility and certain tax-exempt bonds;

the effects of any declines in global equity markets on asset values and any declines in interest rates used to value the liabilities in our pension plan;

an increase in our indebtedness or higher-than-expected interest rates, affecting our ability to generate sufficient cash flow for debt service;

factors relating to the satisfaction of the conditions to the proposed transaction with TDCC, including regulatory approvals and the required approvals of our shareholders;

our and TDCC's ability to meet expectations regarding the timing, completion and accounting and tax treatments of the transaction with TDCC;

the possibility that we may be unable to achieve expected synergies and operating efficiencies in connection with the transaction with TDCC within the expected time-frames or at all;

the integration of the TDCC's chlorine products business being more difficult, time-consuming or costly than expected;

the effect of any changes resulting from the proposed transaction in customer, supplier and other business relationships;

general market perception of the proposed transaction with TDCC; and

exposure to lawsuits and contingencies associated with TDCC's chlorine products business.

All of our forward-looking statements should be considered in light of these factors. In addition, other risks and uncertainties not presently known to us or that we consider immaterial could affect the accuracy of our forward-looking statements.

Additional Information and Where to Find It

In connection with the proposed combination of Olin with the chlorine products business of "TDCC", Blue Cube Spinco Inc. ("Spinco") will file a registration statement on Form S-4 containing a prospectus and Olin will file a proxy statement on Schedule 14A and a registration statement on Form S-4 containing a prospectus with the U.S. Securities and Exchange Commission (the "SEC"). INVESTORS AND SECURITYHOLDERS ARE ADVISED TO READ THE REGISTRATION STATEMENTS/PROSPECTUSES AND PROXY STATEMENT AND ANY OTHER RELEVANT DOCUMENTS WHEN THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT OLIN, TDCC, SPINCO AND THE PROPOSED TRANSACTION. Investors and securityholders may obtain a free copy of the registration statements/prospectuses and proxy statement (when available) and other documents filed by Olin, TDCC and Spinco with the SEC at the SEC's website at http://www.sec.gov. Free copies of these documents, once available, and each of the companies' other filings with the SEC, may also be obtained from the respective companies by directing a request to Olin at Olin Corporation, ATTN: Investor Relations, 190 Carondelet Plaza, Suite 1530, Clayton, Missouri 63105 or TDCC or Spinco at The Dow Chemical Company, 2030 Dow Center, Midland, Michigan 48674, ATTN: Investor Relations, as applicable.

Participants in Solicitation

This communication is not a solicitation of a proxy from any investor or securityholder. However, Olin, TDCC, Spinco and certain of their respective directors, executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies from shareholders of Olin in respect of the proposed transaction under the rules of the SEC. Information regarding Olin's directors and executive officers is available in Olin's 2014 Annual Report on Form 10-K filed with the SEC on February 25, 2015, and in its definitive proxy statement for its 2015 Annual Meeting of Shareholders filed March 4, 2015. Information regarding TDCC's directors and executive officers is available in TDCC's Annual Report on Form 10-K filed with the SEC on February 13, 2015, and in its definitive proxy statement for its annual meeting of shareholders filed March 27, 2015. These documents can be obtained free of charge from the sources indicated above. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the registration statements, prospectuses and proxy statement and other relevant materials to be filed with the SEC when they become available.

Non-Solicitation

This communication shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.