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OLN - Q1 2016 Olin Corp Earnings Call

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OVERVIEW:

OLN reported 1Q16 net sales of nearly $1.35b. Co. expects 2Q16 reported diluted EPS to be $0.10-0.20.

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PRESENTATION

Operator

Good morning and welcome to the Olin Corporation first quarter 2016 earnings conference call. Please note this event is being recorded. I would now like to turn the conference over to Larry Kromidas director of investor relations. Please go ahead Sir.

Larry Kromidas - *Olin Corporation - Director Of IR*

Thank you Chad and good morning everyone. Before we begin I want to remind everyone that this presentation along with associated slides and the following question and answer session will include the statements regarding estimates of future performance. Please note that these are forward looking statements and that results could differ materially from those projected. Some of the factors that could cause actual results to differ are described without limitations in our risk factors section of our most recent Form 10-K and in our first quarter earnings release.

Also please note that during today's call we will reference quarter-over-quarter comparisons as the prior year results do not reflect the contribution of the required chlorine products businesses. Finally a copy of today's transcript and slides will be available on our website in the investor section under Calendar of Events. The earnings press release and other financial and information are available under Press Releases.

Now I'd like to turn the call over to John Fischer President and Chief Executive Officer. John?

John Fischer - *Olin Corporation - President & CEO*

Good morning and thank you for joining us today. In addition to Larry, with me this morning are Pat Dawson, Executive Vice President and President of Epoxy, John McIntosh, Executive Vice President Chemicals and Ammunition, Jim Varilek, Executive Vice President and President Chlor Alkali Products and Vinyl and Todd Slater, Vice President and Chief Financial Officer.

I will begin with a few key highlights from the first quarter and a review of our segment performance. Todd will then provide the details of the quarterly financials and then we will then wrap up with the call with a review of our outlook.

On slide 3 of our presentation are some highlights for the quarter and of our full year outlook. Last night we announced first quarter 2016 adjusted EBITDA of $214.5 million which was at the top end of our guidance range of $195 million to $215 million. We experienced solid performance across our business segments and continue to make progress integrating the acquired chlorine products businesses with the heritage Olin chlor alkali business.

First quarter synergy realization met our expectations and we are on track to achieve the high-end of the $40 million to $60 million in total synergies anticipated for 2016 and we expect an annualized run rate of $80 million by the end of the year. This progress leaves us well-positioned to achieve our full year 2016 outlook and we continue to expect full year 2016 adjusted EBITDA to be in the $915 million to $985 million range.

For the second quarter we anticipate adjusted EBITDA to be in the range of $220 million to $240 million and reported net income to be in the range of $0.10 to $0.20 per diluted share. We will provide more specifics around these expectations later in the call.

Before I turn to segment-by-segment performance, I wanted to point out a few other financial items for the first quarter. In addition to a 5.3% sequential increase in adjusted EBITDA in the first quarter of 2016 compared to the fourth quarter of 2015 we achieved a top-line growth of 6.4% over the prior quarter with net sales of nearly $1.35 billion. Adjusted EBITDA reflects depreciation and amortization expense of $129.7 million, a previously announced restructuring charge of $92.8 million which includes $76.6 million of non-cash impairment charges for equipment and facilities, acquisition-related integration costs of $10.2 million and an $11 million insurance recovery resulting from a 2008 property damage and business interruption claim.

Now turning to the segments. Turning to slide 4. We are pleased to report improved performance in the Chlor Alkali Products and Vinyls segment. First quarter 2016 Chlor Alkali Products and Vinyls segment EBIDTA was $170 million compared to $150.6 million in the fourth quarter of 2015. The quarter over quarter improvement was driven primarily by higher volumes and lower electricity costs.

Pricing per chlor alkali and vinyls products were similar to fourth quarter levels. We will review product volumes and pricing in more detail in a few moments.

The Chlor Alkali Products and Vinyls segments includes the majority of Olin sales to Dow. These sales are predominately made up of chlorine, caustic soda cell effluent and vinyl chloride monomer. These sales are executed under long-term contracts which have a minimum term of seven years from the date of acquisition and contain both minimum and maximum quantities. The contracts are also cost based and as a result provide Olin with a consistent predictable EBIDTA flow.

Also during the quarter we announced and completed the closure of 433,000 tons of chlor alkali capacity across the Henderson Nevada, Niagara Falls, New York, and Freeport, Texas locations. Chlor alkali manufacturing at the Henderson Nevada site has been discontinued and the site is being reconfigured to manufacture bleach and distribute caustic soda and hydrochloric acid. This Henderson, Nevada closure has enabled us to lower our overall operating costs while still servicing our customers in the region.

We are forecasting sequential adjusted EBITDA improvement in the second quarter for Chlor Alkali Products and Vinyls with improved product volumes including improved seasonal demand for both chlorine and bleach, flat chlor alkali products pricing, and a slight improvement in vinyls pricing.

Turning to slide 5 we're providing a closer look at pricing and volume for the quarter. We have illustrated pricing and volume comparisons for chlorine, caustic soda, EDC bleach and HCl during the first quarter as compared to the fourth quarter 2005 and were applicable the first quarter of 2015.

On the volume front Olin did experience stronger merchant chlorine and bleach volumes in the first quarter of 2016 compared to the first quarter of 2015 and consistent with fourth quarter of 2015 levels. We continue to see opportunities for continued growth in bleach sales. The addition of a bleach production facility at the acquired Freeport, Texas site will increase Olin's bleach capacity by approximately 25% and has the potential to increase bleach sales by 10% to 15% in 2017.

Domestic contract caustic soda price indices increased during the fourth quarter 2015, but pricing pressures in the first quarter 2016 resulted in domestic contract pricing index decreases of $25 per ton. Overall, Olin's first quarter 2016 caustic soda pricing was similar to fourth quarter levels.

The April domestic contract caustic soda price indices increased $17 per ton essentially taking us back to the levels that existed at the beginning of the year. This is reflected in both our second quarter and full-year 2016 EBIDTA guidance.

Prices for hydrochloric acids, chlorine and ethylene dichloride experienced slight sequential improvements in the first quarter 2016. The chlorine contract pricing index has improved in 2016 and this is also reflected in Olin's second quarter and full-year EBIDTA guidance. Modest increases in EDC pricing has also been included in the second quarter and full-year EBIDTA guidance.

I would like to take an opportunity to offer our longer-term view on caustic soda which is summarized on slide number six. Olin believes there are reasons to be optimistic about caustic soda pricing. In North America we believe there is a bias towards capacity reductions and no major chlor alkali North American capacity increases have been announced.

In Europe the sun setting of mercury-based chlor alkali production by the end of 2017 will result in European chlor alkali capacity reductions of 1 to 1.5 million tons. Approximately 400,000 of those tons are scheduled to be shut down by midyear 2016.

Finally, caustic soda conception in China is expected to continue to grow for the foreseeable future. In China we are seeing a significant shift in the chlor alkali supply demand balance. Chinese domestic caustic soda conception for alumina continues to grow while slower growth on the chlorine side of the ECU has had the effect of reducing caustic soda exports by 30% since 2012. Altogether the region benefiting from these global dynamics is the U.S. Gulf Coast where since 2008 exports to Australia have grown from near zero to 360,000 tons in 2015.

Entering this year, Olin has experienced a steady increase in inquiries for formal supply relationships to serve global markets from our U.S. Gulf Coast facilities. These macro factors give us reason to be encouraged by caustic soda pricing trends over the longer term.

On slide 7 we summarize the performance of our Epoxy segment. Epoxy sales for the first quarter of 2016 were $460.2 million representing a 7.1% increase over the fourth quarter 2015. The first quarter sales growth was driven by higher volumes which were partially offset by lower prices. All product lines experienced improved volumes sequentially with stronger demand in both North America and Europe.

First quarter 2016 adjusted EBITDA was slightly lower than the fourth quarter levels, as improved volumes were offset by lower pricing. The second-quarter results for the epoxy business are expected to be lower than the first quarter due to the timing of maintenance related outage costs partially offset by improved volumes. We are experiencing strong demand in Europe in the second quarter.

We expect the Epoxy business to continue to improve during 2016 driven by volume growth and we expect to see stronger results in the second half of the year. This forecasted Epoxy volume growth reflects the benefits of key initiatives that are already in place.

I would like now to turn to the performance of our Winchester segment which we summarized on slide 8. Winchester sales in the first quarter were $183.7 million, a 17.2% increase over the seasonally weaker fourth quarter of 2015. This growth was driven primarily by increased shipments to commercial customers. We've seen improvement in commercial demand and selected handgun calibers and steady strength in rim fire demand.

First quarter 2016 adjusted EBITDA was $33.3 million, a 24.7% increase over the fourth quarter of 2015. The improved results reflect higher commercial shipments and lower commodity and material costs. We are forecasting sequential adjusted EBITDA improvement in the second quarter for Winchester. We continue strong commercial demand, especially in pistol and rim fire ammunition and lower operating costs.

Winchester continues to focus on cost reduction and we remain on track to complete the final equipment relocation during the second quarter of 2016. We anticipate that the annual cost savings from this project will reach $40 million. As a result, we believe full-year 2016 Winchester earnings will improve compared to 2015 primarily because of incremental savings from the Oxford relocation, lower commodity and material costs, and improvement in volumes partially offset by lower prices.

I will now turn the call over to Todd to provide more details on our financial performance and outlook.

Todd Slater - *Olin Corporation - VP & CFO*

Thanks John. Before I begin our discussion on slide 9, I would like to provide an overview of the balance sheet and cash flows. We ended the quarter with cash and cash equivalents totaling $315.6 million and total debt of approximately $3.83 billion. As a reminder in conjunction with acquisition, we issued a total of $2.2 billion of variable-rate term loan debt and a total of $1.2 billion of fixed rate 8- and 10-year bonds. The term loans are repayable at any time without penalty. During the quarter we repaid $17 million of term loan debt.

In the second quarter of 2016, the $125 million, 6.75% notes originally issued in total 2001 become due. These notes are expected to be repaid with available cash. For the full year 2016 approximately $205 million in debt will mature. All of which is expected to be repaid using available cash.

We have approximately 60% variable rate debt in our debt profile. As a result, we are estimating our second quarter 2016 interest rate will be approximately 5%.

During the first quarter of 2016, working capital increased $98.1 million reflecting normal seasonal working capital growth. Olin typically experiences increases and working capital during the first half of each year, reflecting the seasonality of many of the industries we serve, such as vinyls, bleach, merchant chlorine coatings, and ammunition.

Our priorities for the use of cash over the next two years remain the payment of our quarterly dividends, funding of synergy capture projects, and the repayment of debt. Our expectations by the end of 2017, the combination of debt reduction and EBIDTA growth will reduce net debt EBIDTA leverage ratio to a range of 2.5 to 3.

Turning to our Corporate and Other segment. On a total company basis defined-benefit pension plan income was $8.9 million in the first quarter of 2016 compared to $10.3 million in the fourth quarter of 2015. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2016. However, during 2016 we do expect to make less than $5 million of contributions to international defined benefit pension plans.

First quarter 2016 charges to income from environmental investigatory and remedial activities were $2.7 million compared to $2.6 million in the fourth quarter of 2015. These charges related primarily to expected future investigatory and remedial activities associated with past manufacturing operations and formal waste disposal sites.

Second quarter 2016 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 and investigatory and remedial costs incurred and expensed in prior periods. As a reminder, in conjunction with the acquisition, Dow has retained liabilities relating to litigation releases of hazardous materials and violations of environmental law to the extent arising prior to the acquisition.

During the first quarter 2016, Olin recorded a pretax restructuring charge of $92.8 million, primarily associated with the closure of 433,000 tons of chlor alkali capacity across three separate locations. The restructuring charge included $76.6 million of non-cash impairment charges for facilities and equipment. We anticipate second quarter 2016 restructuring charges of approximately $8 million.

First quarter 2016 corporate and other unallocated costs increased by $13.8 million compared to the fourth quarter of 2015, but are consistent with our full year 2016 expectations. Full year 2016 corporate and other unallocated costs were forecast to be in the $95 million to $115 million range. Corporate and other unallocated costs will increase in 2016 compared to 2015 due to a build out of our corporate capabilities required by the addition of the Dow chlorine products businesses.

The first quarter of 2016 included acquisition-related integration costs of $10.2 million, primarily associated with outside consulting and professional fees and non-recurring personnel related costs. We anticipate second quarter 2016 acquisition-related integration costs to be comparable to the first quarter.

On April 28th Olin's Board of Directors declared a dividend payable of $0.20 per share of Olin common stock. The dividend is payable on June 10, 2016 to shareholders of record at the close of business on May 10, 2016. This marks the 358th consecutive quarterly dividend paid by the Company.

Now turning to full year guidance and modeling assumptions which are on slide 10. Capital spending in the first quarter was $76.1 million which is -- which was in line with our expectations. For the first quarter of 2016 we continued -- for full year 2016 we continued to forecast the total capital spending will be in the $300 million to $340 million range which includes $60 million of synergy-related capital spending.

Our largest synergy capital projects in 2016 is the construction of the bleach production facility in the acquired Freeport, Texas site. We expect this bleach facility to be completed in time for the 2017 bleach season. We continue to believe that annual maintenance level capital spending for the new Olin is in the $225 million to $275 million range.

We also continue to forecast the depreciation and amortization expense of 2016 will be in the $490 million to $500 million range including step-up acquisition depreciation and amortization expense of approximately $145 million. The amount of annual step-up acquisition depreciation and amortization expense is subject to change when we finalize our acquisition accounting later this year.

We are forecasting 2016 to be a cash free tax year. Reflecting utilization of net operating loss carryforwards created by acquisition costs incurred last year. On a normalized-basis we expect our cash tax rate to be in the 25% to 30% range. In 2016 we currently believe that the book effective tax rate we have 35% to 38% range.

Now I would like to turn the call back over to John to discuss our guidance.

John Fischer - *Olin Corporation - President & CEO*

Thanks Todd. Let's review the components that drive our Adjusted EBITDA guidance range for the second quarter and full year of 2016. Some details of this guidance are shown on slide 11.

In the second quarter of 2016, we anticipate Adjusted EBITDA to be in the range of $220 million to $240 million. This outlook reflects similar pricing and improved volumes for chlor alkali products, as well as slightly improved pricing and improved volumes for vinyls products as compared to first quarter levels.

We also anticipate sequentially lower Epoxy results in the second quarter due to the timing of maintenance related outage costs partially offset by improved volumes. We expect modest sequential improvement for Winchester. Improvement and caustic soda pricing as compared with first quarter levels represents an upside to our adjusted second quarter EBITDA range.

In terms of reported net income, we anticipate a range of $0.10 to $0.20 per diluted share for the second quarter including approximately $0.21 per share of restructuring costs, acquisition-related integration costs, and acquisition step up depreciation and amortization. We anticipate pretax restructuring costs of approximately $8 million and pretax acquisition related integrating costs of approximately $10 million. We anticipate that acquisition step-up depreciation and amortization will be approximately $35 million.

For the full year we have reiterating our Adjusted EBITDA guidance range of $915 million to $985 million. We anticipate improved results in Epoxy which we expect to experience stronger second half results compared to the first half of the year as well as improved year-over-year results in Winchester.

We anticipate that cost synergy realization will come in at the high end of the $40 million to $60 million range and expect lower year-over- year electricity costs primarily due to lower natural gas costs. Improvement in chlor alkali pricing will continue to represent potential upside to our 2016 adjusted EBITDA guidance.

An area where synergy captured teams have had success is in reducing and optimizing the cost of maintenance turnarounds. Based on work that has been performed to date, we have reduced the full year maintenance turnaround costs forecast by approximately 10%. Reduced maintenance turnaround costs positively impacted first quarter results and we now expect that approximately 60% of the full year maintenance turnaround costs will be incurred in the first half of the year.

We believe the first quarter results provide evidence of the benefits of the new, more balanced Olin portfolio. In a quarter where pricing for caustic soda, hydrochloric acid and EDC remained weak, we were able to achieve the high end of our earnings guidance, a solid Epoxy performance, lower national gas prices and synergies realized provided positive offsets.

Synergies continue to be a positive story. The contribution from synergies will grow in the second quarter as a result of the Henderson chlor alkali shutdown in the initiation of chlorine rail shipments from the acquired Plaquemine, Louisiana facility. Finally as we have said previously improvement in caustic soda pricing for first quarter levels represents an upside to both second quarter and full year guidance.

Operator we are now ready to take questions.

Operator

Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Frank Mitsch, Wells Fargo.

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

Good morning gentlemen. And a nice start to the year. I wanted to explore a little further on the commentary on caustic soda. Obviously you indicated that the index during the quarter to Q1 on caustic was down $25 yet you said that your realized pricing was flat sequentially and then you went on to say that the indices already noting as of April pricing up $17. As you know, or you have announced multiple price increases for May and June so if you help me understand why you saw flat sequential pricing on your caustic in Q1 and why, in terms of your guidance, you're not forecasting any further caustic increases when the indices are showing up $17 in April.

John Fischer - *Olin Corporation - President & CEO*

Frank as you know the majority of our caustic soda is sold under contract which had some kind of contract mechanism in there. We typically realized the benefits and the negatives associated with index price changes on a lag basis, so the first quarter declines would typically lag by a quarter so we would see that typically in the second quarter. We saw the increase early enough in the second quarter that we think it will offset some of it will be benefit the second quarter and the net of the lag in the early April will give us the net flat. Jim why don't you talk about where we are on our costs pricing -- caustic price increase.

Jim Varilek - *Olin Corporation - EVP & President Chlor Alkali Vinyls and Services*

We've announced three price increases for the quarter totaling $80 a ton -- $85 a ton. We've gone $30 a ton in April, $25 a ton in May and $30 a ton for June. We've got three price increases out there as John mentioned, we've already had some sequential improvement in the month of April. We are now into May but we are very early in May so it's too early to tell exactly how those will play out and we will have to wait for June to see where that ends up.

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

Thank you. John my understanding is obviously the old Olin was very much tied to this one quarter's type of lag. My suspicion was that with the Dow assets added that it was a slightly better you were seeing some of these increases and declines a little bit sooner than you had with old Olin. Is that the right way for me to think about it?

John Fischer - *Olin Corporation - President & CEO*

I think the way to think about it is Olin used experienced one to two quarter lags and we're probably more in one quarter lag mode now.

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

Thank you. A couple of things if you could size for us just roughly what is the expected negative impact in Q2 for the Epoxy outage and also I believe stock compensation was a negative impact in Q1, an increase there based on where the stock price had gone if you could size that for us as well.

Todd Slater - *Olin Corporation - VP & CFO*

Frank this is Todd. The stock-based compensation component was about $3 million penalty Q4 versus Q1.

John Fischer - *Olin Corporation - President & CEO*

And I think we would say in the Epoxy business if there were no major turnarounds the results would be probably sequentially slightly better than Q1.

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

Alright so would pick up sequentially. If I'm not mistaken you guys were talking about adjusted EBITDA in Epoxy's kind of in the [$130 million] to [$150 million] range for 2016. Is that still in the ballpark?

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

Frank this is Pat. That is still in the ballpark.

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

Thank you so much.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Good morning. Just as a follow-up to the previous question, I believe you previously expected to recognize a sequential improvement in the caustic soda netback of $10 to $15 during Q1 2016. Did the decline in February impact what you ended up realizing in the first quarter?

John Fischer - *Olin Corporation - President & CEO*

Yes it did.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay and are we going to see part of that decline I guess again in Q2 is that what you were referencing in terms of the one quarter lag?

John Fischer - *Olin Corporation - President & CEO*

We actually had -- what we're going to see is Q2 with the increase will offset the impact of the lag from the lower prices that we saw in the index. So we're essentially saying we're going to see flat caustic soda pricing Q4, Q1, Q2.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay great. What was your capacity utilization for your Epoxy assets during the quarter as well as kind of at the end of the quarter where did it end?

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

This is Pat again. We really don't report those numbers but I can say our capacity utilization increasing.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Great. How do you characterize your EDC business. It looks like PVC pricing in Asia and Asian EDC pricing has increased recently. Would you expect the prices that you are realizing in your EDC business to increases well?

Jim Varilek - *Olin Corporation - EVP & President Chlor Alkali Vinyls and Services*

I think as John mentioned in the remarks that we're going to see improving volumes and we will see some increase in the EDC price as well.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Great. One last one. Do you believe that the projects that plan to convert to membrane cell by the sunset date in Europe have announced at this point or could there be additional announcements in the future?

John Fischer - *Olin Corporation - President & CEO*

I think we have seen about 700,000 tons of absolute shutdown announcements. We saw another announcement that sort of foreshadowed a 300,000 ton shutdown which would take you to 1 million. There's about 400,000 to 500,000 tons unspoken for which we believe will ultimately be shut down. Those are smaller plants that the economic justification just isn't there. They will probably run them to the end.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay great. Thank you.

Operator

Don Carson, Susquehanna Group.

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

Yes thank you. John just to beat a dead horse a little further. On caustic, so the indices are down $17 in April. One of the publications --

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John Fischer - *Olin Corporation - President & CEO*

They're up $17 in April.

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

I'm sorry up $17, go my signs mixed up here. The same rag is showing up $25 in May, up $20 in June obviously that's forecast but if that comes true then you would be up net for the quarter is that correct? You're basically saying the up $17 in April offsets to Q1 decline.

John Fischer - *Olin Corporation - President & CEO*

That's correct. So anything that -- anything increases post April is a positive for us.

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

Right. Okay. On operating rights I was surprised the industry operating rates were so high in March approximately 84%. I thought there was more planned downtime. What's your expectation for what we're operating rates for the industry in April and where you're anticipating it in May?

John Fischer - *Olin Corporation - President & CEO*

I don't know that we can speak for the industry. I would tell you our operating rate profile because of the seasonal aspects around chlorine and bleach will grow -- will be higher in April, higher in May, higher in June.

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

Okay. And are you participating at all in caustic exports?

Jim Varilek - *Olin Corporation - EVP & President Chlor Alkali Vinyls and Services*

This is Jim. We do have exports. We have a good portfolio of export business that we will move in and out of over time depending on the market conditions.

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

And what percentage of your overall business would that be now volume wise?

Jim Varilek - *Olin Corporation - EVP & President Chlor Alkali Vinyls and Services*

We really don't give out a percentage. It's in the 8% to 10% of our third-party sales.

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

All right. Thank you.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Good morning. Doesn't sound like you expect any effect from the VCM outage at a competitor in Mexico. I guess they said they will continue to run the chlorine caustic unit may restart ethylene unit although I'm not sure how that all balances out. I just wanted to confirm you don't think that's going to have an impact on the market here?

Jim Varilek - *Olin Corporation - EVP & President Chlor Alkali Vinyls and Services*

This is Jim again. As far as the overall market goes there was some an initial tightening immediate on-the-spot market from the explosion and so forth but we're still waiting to see exactly how that plant is going to run over time and whether it's a longer-term impact. I think we're still in the wait and see mode there.

John Roberts - *UBS - Analyst*

And secondly when the Dow merger with DuPont completes are there any material caustic sales or caustic consumption at DuPont that might come under your contract that you have with Dow?

John Fischer - *Olin Corporation - President & CEO*

I don't think we sell any caustic sodas at DuPont anymore.

John McIntosh - *Olin Corporation - EVP Chemicals & Ammunition*

It's a very small amount.

John Roberts - *UBS - Analyst*

I assume they consume of material amount of caustic in their manufacturing operations.

John McIntosh - *Olin Corporation - EVP Chemicals & Ammunition*

Most of the caustic consumption products that were part of historically part of DuPont were part -- are now part of Chemours.

John Roberts - *UBS - Analyst*

Okay. The DuPont industrial business -- their chemicals facilities for nylon and so forth there's not much caustic conception that you would use in their water processing and so forth.

John McIntosh - *Olin Corporation - EVP Chemicals & Ammunition*

Not near as much as with the Chemours business when that company was created.

John Roberts - *UBS - Analyst*

Okay. Thank you.

Operator

Aleksey Yefremov, Nomura Securities

Aleksey Yefremov - *Nomura Securities Co., Ltd. - Analyst*

Back to caustic soda market, spot and export prices have risen dramatically in the last few weeks. Is any benefit of that embedded in your second quarter and any old guidance at this point.

John Fischer - *Olin Corporation - President & CEO*

No, Sir.

Aleksey Yefremov - *Nomura Securities Co., Ltd. - Analyst*

Thank you. Turning to hydrochloric acid, why did hydrochloric acid pricing increase for all and it seems like the main benchmark has shown sequential decline in the first quarter and further in the second quarter. Could you reconcile the two and what would you expect going forward here?

John McIntosh - *Olin Corporation - EVP Chemicals & Ammunition*

To put it in perspective HCl pricing whether you're talking about fourth quarter or first quarter or second quarter is significantly lower than has been historically. So that's important to note because we're talking about numbers significantly different than what we saw a year ago when HCl pricing peaked.

For the first quarter HCl pricing was impacted by the continued delayed startup of a couple of new plants that were bringing HCl burners online and were supposed to start up the end of the year. Those startups have been delayed. So that additional capacity did not come to market. The other side of what occurred in January was that the part of capacity that is -- comes from other producers that's by-product HCl, that volume was off in January as well.

Aleksey Yefremov - *Nomura Securities Co., Ltd. - Analyst*

If I may follow up on hydrochloric acid, what is the current sensitivity to price changes for that commodity and has it changed materially after the Dow acquisition?

John McIntosh - *Olin Corporation - EVP Chemicals & Ammunition*

It's not changed materially, no. It's being driven by the market and by what's happening in the oil and gas patch and to some extent some other in markets that are just weak now.

Aleksey Yefremov - *Nomura Securities Co., Ltd. - Analyst*

The number of tons that you sell has not materially changed?

John Fischer - *Olin Corporation - President & CEO*

Aleksey the capacity that Olin had was about 10% of it's ECUs or 200,000 tons. The Dow acquisition did not add any capacity. So what we're selling is essentially unchanged other than the weaker markets so there is less demand.

Aleksey Yefremov - *Nomura Securities Co., Ltd. - Analyst*

Great. Thanks a lot.

Operator

Herb Hardt, Monness, Crespi, Hardt & Company

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

Good morning. Good progress. I have two questions. One is any affect on currencies now that you're in the overseas business and secondly as I recall the old rule of thumb was for every dollar that the price of the stock went up or down it was a cost or a gain of $700,000 to pretax. Has that changed very much?

Todd Slater - *Olin Corporation - VP & CFO*

Herb this is Todd. The foreign currency exchange in our results the amount was immaterial and it was very small in the first quarter. The stock-based compensation number is now closer to $300,000 to $400,000 as opposed to the old $700,000 number.

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

So it's less?

Todd Slater - *Olin Corporation - VP & CFO*

Yes it is because of the payout last -- at the end of last year for deferred compensation.

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

Okay. Thank you.

Operator

Dmitry Silverstein, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

I might have missed this in the earlier comments, but how much did your chlorine pricing increase in the quarter you talked about caustic being down $25 what was chlorine up?

John Fischer - *Olin Corporation - President & CEO*

We didn't talk about how much our chlorine price was up specifically. We just said it was up and we said the index was up. Give us two seconds we can tell you --

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Jim Varilek - *Olin Corporation - EVP & President Chlor Alkali Vinyls and Services*

The index is up in April, $20 a ton.

Dmitry Silversteyn - *Longbow Research - Analyst*

Talk about -- when we have started seeing hydrochloric acid pricing take off, I think, for the first time in a long time here at least sequentially is it just the oil patch bottoming out or have you found other uses or has supply has go down enough so that there is a little bit tightness in the market can you talk about the outlook for hydrochloric acid for the balance of the year?

John McIntosh - *Olin Corporation - EVP Chemicals & Ammunition*

Demand really hasn't changed. What is changing is supply. Companies like Olin have the capability to use chlorine to either make HCl or use chlorine and sell it is chlorine. So with some improvement in pricing and improvement in demand on the chlorine side a producer like Olin with capability will actually reduce HCl production, use the chlorine where it generates more value and tighten up the supply side of the HCl market at the same time.

Dmitry Silversteyn - *Longbow Research - Analyst*

So other producers are basically doing the same thing and that's what's tightening up supply or is that all Olin but it's just having an impact on the market because of your size

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John McIntosh - *Olin Corporation - EVP Chemicals & Ammunition*

Not all producers are created equally in terms of their capability to do that. Some are and some I would guess our maybe looking at it the same way that we look at it. But it's really supply side. We have not seen any real -- any real return of demand.

Dmitry Silversteyn - *Longbow Research - Analyst*

In terms of Epoxy's are you talking about expectation of a recovery of profitability in that business in the second half of the year. Can you talk a little bit about sort of what the mechanism for that would be is it improving demand or is it something you guys are doing internally on the cost side, raw materials hurting or helping? Where does the confidence come from that Epoxy's going to turn around the second half.

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

This is Pat Dawson. There's three major initiatives that we been embarking on. The first one has been around, improving our productivity and our cost structure.

The second area around just better utilizing our upstream and midstream capacity. So running our plants harder and lowering those unit costs.

And thirdly, which is a little bit more difficult is to move more downstream and to really change the mix of more differentiated type of offerings. Those are the three key areas that we continued focus on and we will continue to drive improvement in Epoxy.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay so is it just that they will all sort of start bearing fruit in the second half of the year? Is that --

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Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

No, we've been showing continued improvement here. As we mentioned earlier from Q4 to Q1. We've got to maintenance turnarounds in Q2. Q2 will be just a bit better. When you take out the maintenance. So we see just ongoing continued improvement in Epoxy.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. And final question just in general in raw materials. We didn't used to worry about raw materials for Olin much beyond the Winchester business but now you do, I assume, you buy ethylene from Dow and you buy few other petrochemicals here and there for Epoxy's for example. What has been your sort of raw material basket doing in terms of cost and what you expect for that in the second half of the year?

John Fischer - *Olin Corporation - President & CEO*

The biggest thing we buy is electricity. With the Dow acquisition, the majority -- the larger part of that electricity is now based on natural gas. We've obviously seen benefits from that. We saw gas hit some pretty low levels in Q1.

I would also say that the lower level of natural gas prices has actually caused the electricity purchased by the heritage Olin business to go down in sympathy. I would say from a materials standpoint that's the biggest single thing. And that has been a positive and we called that out.

Dmitry Silversteyn - *Longbow Research - Analyst*

As far as Epoxy's are concerned I know you're using propylene and ethylene and a few other chemicals, nothing there for us to worry about in terms of inflation?

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

No. Propylene, benzene those are formula-based contracts and there's really no material effect in the way we manage that upstream part of our business.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay.

Operator

Roger Spitz, Bank of America Merrill Lynch

Chris Ryan - *Bank of America Merrill Lynch - Analyst*

This is Chris Ryan sitting in for Roger today. Thanks for taking my questions. First question you talked about the volume offside in Epoxy's was part of that driven by new [epy] supply agreement that would start up sometime this year?

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

No. Chris we really wouldn't comment on that. I think overall the volume is really being driven throughout the whole Epoxy value chain whether be the upstream or the midstream LER we just continue to be aggressive and running our plants harder and taking share with our low-cost position.

Chris Ryan - *Bank of America Merrill Lynch - Analyst*

Okay. And can you speak to which Epoxy prices were down if not across the board was in an EPI, BPA, LER, or downstream products and what drove that price decrease not just pass-through lower raw materials?

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

Yes. Most of the area where we saw pricing attrition was in the midstream in the liquid epoxy resins and to a little extent solid epoxy resins. All of that pressure was coming from Asian imports and we were being competitive and making sure that we keep running our plants hard.

Chris Ryan - *Bank of America Merrill Lynch - Analyst*

Okay. How much have the prices of specialty epoxy products meaning downstream if LER moved and has there been a margin expansion on the raw materials falling faster than specialty epoxy prices?

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

I really can't comment on the downstream movement on epoxy prices. That's literally hundreds or thousands of products there and it's a very broad mix. I really can't -- I don't have a good answer for that.

Chris Ryan - *Bank of America Merrill Lynch - Analyst*

Okay. Thank you. That's all my questions.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Good morning. Had a question on your comments you noted that you're encouraged by both near-term and long-term supply demand and dynamics and caustic soda can just elaborate there? Have you noticed any change in supply, I guess after your shutdowns and potentially some from your competitors, and do you think that some of that supply demand balance improvement is sustainable over the intermediate term?

John Fischer - *Olin Corporation - President & CEO*

We have seen in the Olin system a tightening of our availability to where we've had to turn away customers a couple of times. We've also seen a couple of instances where imported product was available to certain people historically that recently haven't been as available. We think both of those facts are sustainable over the longer-term.

Arun Viswanathan - *RBC Capital Markets - Analyst*

And what gives you confidence in that long-term comment? The reason I'm asking is because over the last three years we've seen some fits and starts on caustic pricing sometimes driven by seasonality or maintenance or whatever it was. There's been limited sustainability in that price momentum so maybe you can give us a little bit more on why you think these recent moves are a little different whether it has to do with Europe or other supply disruptions what do you think?

John Fischer - *Olin Corporation - President & CEO*

I think the Europe thing should not be underestimated in terms of its potential impact on the North American market and on the global market because there's a million tons that's potentially not there. The other thing I would point to the comment that we made about exports going -- exports for alumina that have gone from zero in 2008 to 360,000 tons in 2015 and we have evidence that suggests that that's growing further in 2016. That is I think the best evidence we have to suggest the supply demand balance we discussed around China is changing.

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Arun Viswanathan - *RBC Capital Markets - Analyst*

Great. In the last question on this just on that point do you expect over time the differential between U.S. contract prices and spot export prices to narrow or do you still think there will be a large difference there? Thanks.

Jim Varilek - *Olin Corporation - EVP & President Chlor Alkali Vinyls and Services*

This is Jim. The spot in contract, there will always be some kind of relationship there. But as you know spot prices are going to go with the demand and the exports and that's what's taking place right now so there will be relationship there. I can't comment on exactly what that is going to look like over a long period of time.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay just a question on the cost curve, have you noticed any differences with the recent increase in oil prices in Q1. How it has affected either your own cost or cost in the industry especially for some of your global competitors? Thanks.

Jim Varilek - *Olin Corporation - EVP & President Chlor Alkali Vinyls and Services*

We have not noticed any material differences as a result of the somewhat small improvement in oil prices.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. Thanks.

Operator

Owen Douglas, Baird.

Owen Douglas - *Robert W. Baird & Co. - Analyst*

Good morning guys. Thanks for taking my question here. A lot of good ones have already been asked so I just really wanted to dig in a little bit more on the Epoxy business just to make sure have is correct. I think you said that in Europe the situation was improving. Can you comment on domestic what you're seeing?

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

Yes. This is Pat. Domestically here in the U.S. it's not really a robust market. We might see 1% to 2% growth this year. In Europe I would say it's more optimistic. In Europe we see in the neighborhood of 3.5% to 4.5% type growth rates over there. It's a bigger epoxy market in Europe as well.

Owen Douglas - *Robert W. Baird & Co. - Analyst*

Okay. And can you comment a bit when you say one when you say 1% to 2% I presume you're talking about on the volume side right?

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

That's right.

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Owen Douglas - *Robert W. Baird & Co. - Analyst*

Okay and -- what do you think is really kind of holding it back that 1% to 2%

Pat Dawson - *Olin Corporation - EVP & President of Epoxy and International*

I think you're looking at industrial production as probably as good a proxy as any. Industrial production has been fairly anemic year domestically.

Owen Douglas - *Robert W. Baird & Co. - Analyst*

Okay. I see. And as far as thinking about the chlorine side I think you kind of guided to some increase chlorine production besides the normal seasonal factors can you give a sense for what is really helping to pull through some of that chlorine?

John Fischer - *Olin Corporation - President & CEO*

I think what you've seen over a long period of time is a shrinking of the amount of merchant chlorine that is available in the market as producers like Olin, John McIntosh talked about HCl going back and forth. Olin continues to expand bleach. Bleach is continuing to grow as a product. And I think what you're seeing is both constrained supply and then seasonal pickup in demand and you can get price increases.

Owen Douglas - *Robert W. Baird & Co. - Analyst*

I'm sorry I was referring to on the volume side.

John Fischer - *Olin Corporation - President & CEO*

I think the same thing applies.

Owen Douglas - *Robert W. Baird & Co. - Analyst*

Okay. I will leave it there. Thanks for taking my questions.

Operator

Ladies and gentlemen that concludes our question and answer session. I would like to turn the conference back over to John Fischer for any closing remarks.

John Fischer - *Olin Corporation - President & CEO*

Thank you for joining us today and we look forward to talking to you at the end of the second quarter.

Operator

Thank you, sir. The conference is now concluded, thank you for attending. You may now disconnect.