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OLN - Q2 2015 Olin Corp Earnings Call

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OVERVIEW:

OLN reported 2Q15 sales of \$535m and income from continuing operations of \$42.3m or \$0.54 per diluted share. Expects 3Q15 diluted EPS to be \$0.05-0.10.



CORPORATE PARTICIPANTS

Joseph Rupp *Olin Corp. - Chairman and CEO*

John Fischer *Olin Corp. - President and COO*

John McIntosh *Olin Corp. - Sr. VP Chemicals*

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PRESENTATION

Operator

Good day, everyone, and welcome to the Olin Corporation's second quarter earnings conference call. (Operator Instructions)

Please also note that today's event is being recorded. At this time, I would like to turn the conference call over to Mr. Joseph Rupp, Chairman and CEO. Mr. Rupp, please go ahead.

Joseph Rupp - Olin Corp. - Chairman and CEO

Good morning, thanks for joining us today. With me this morning are John Fischer, our 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 income from continuing operations in the second quarter of 2015 was \$42.3 million or \$0.54 per diluted share, which compares to \$36.6 million or \$0.46 per diluted share in the second quarter of 2014. Sales in the second quarter of 2015 were \$535 million compared to \$570 million in the second quarter of 2014. Second quarter 2015 results included pretax gain of \$52.2 million associated with property damage and business interruption insurance recoveries, resulting from a June 2014 incident at one of our two chlor alkali production units in Becancour, Canada.

Second quarter 2015 results also included pretax acquisition-related financing and other costs of \$22.1 million, increased legacy environmental costs of \$3.9 million, and pretax restructuring costs of \$700,000. Earlier this year, we said we expected improved pricing on the ECU, driven by improved demand for both chlorine and caustic soda molecules.



While we have seen some improvement in chlorine prices, these have been offset by weaker caustic soda pricing and weaker than expected demand. As a result, we now expect Chlor Alkali segment earnings to decline in 2015 when compared to 2014. We continue to forecast that earnings in the Chemical Distribution and Winchester segments -- we have forecasted them to improve in 2015 when compared to 2014.

Without giving consideration to the impact of the Dow acquisition in the fourth quarter, we now expect our full-year adjusted EBITDA to be in the \$330 million to \$360 million range.

We continue to focus significant effort preparing for the Dow transaction. Several significant milestones toward closing the transaction have been achieved. All antitrust approvals have been received and Dow has received a favorable private letter ruling from the IRS. We've completed a \$1.85 billion unsecured credit facility with our banks which will partially fund the Dow transaction and provide backup liquidity.

The next key milestone will be the approval of the transaction by our shareholders. We now expect to close early in the fourth quarter. We are confident the transaction will be value creating and once the transaction is complete, Olin will become the leading chlor alkali producer in the world. The number one global seller of membrane caustic soda, the number one global seller of chlorinated organic products, the number one global supplier of epoxy materials, and the number one North American supplier of chlorine, bleach, and on-purpose hydrochloric acid.

With the Dow businesses, we will create an industry-leading chlor alkali and chlorine derivatives company with significant scale. We believe the new Olin will be less cyclical as we expand our chlorine placement opportunities from three to 19 products.

The chlorine businesses we are acquiring from Dow are complementary to the Olin chlorine businesses and significantly less vulnerable to the current weakness in the market prices of chlorine and caustic soda. The global epoxy business and global chlorinated organic businesses, which account for approximately 70% of the sales that we are acquiring, are sensitive to the manufacturing costs of chlorine and caustic soda and less on the market prices.

As you know, we believe we are acquiring the lowest cost chlor alkali manufacturing assets in North America.

In addition, Olin will sell significant quantities of chlorine and caustic soda to Dow. These sales are also sensitive to the manufacturing costs of chlorine and caustic soda, not the market prices. As a result, we see limited risks from weak market chlorine and caustic soda prices to the annual Dow chlorine products pro forma forecast.

We believe that we will generate at least \$200 million in annual synergies within three years after closing.

Some of the key benefits Olin expects from the acquisition will come from a significant reduction in the average cost of manufacturing ECU. We have the opportunity to lower average manufacturing costs in some cases by as much as a third.

The use of the current Dow facilities to affect a meaningful reduction in the annual number of chlorine rail miles shipped is another significant opportunity for us and will create significant rail savings.

The opportunity to continue to expand our sales of bleach -- we expect that by the summer of 2017, bleach season, we will be in a position to achieve double-digit growth in bleach shipments. We are also pleased that the current leaders and the respective management teams of Dow Chlorine Products, global epoxies, chlor alkali vinyls and chlorinated organics in the global chlor alkali manufacturing have all agreed to join Olin at closing.

All the Dow Chlorine Products' management team has significant chemical industry experience with the epoxy, chlorinated organics, chlor alkali, and vinyls businesses.

As I stated earlier, we expect to close early in the fourth quarter and at that point, we will unite the two oldest chlor alkali manufacturers both who have operated over 100 years and we will celebrate our past and we will look forward to a promising future together.



Now I would like to turn the call over to our President and Chief Operating Officer, John Fischer. John is going to discuss the quarter and the business in more detail. John?

John Fischer - *Olin Corp. - President and COO*

Thank you, Joe. Let me begin with our third quarter outlook.

Third quarter 2015 net income is forecast to be in the \$0.05 to \$0.10 per diluted share range which includes pretax acquisition-related costs of approximately \$17 million, financing expenses related to the Dow transaction of approximately \$8 million.

Chlor Alkali third quarter earnings are expected to be lower than the third quarter of 2014 segment earnings, primarily due to lower caustic soda volumes. Third quarter 2015 Chemical Distribution earnings are expected to be higher than the third quarter of 2014 due to improved caustic soda margins and increased earnings from Olin-produced bleach, hydrochloric acid, and potassium hydroxide.

In the Winchester business, third quarter 2015 earnings are expected to be comparable to third quarter 2014 levels. Third quarter 2015 results are also forecast to include approximately \$6 million of higher legacy environmental costs compared to the third quarter of 2014 and finally third quarter 2015 earnings are expected to include restructuring charges of approximately \$1 million.

Turning to the individual businesses, beginning with Chlor Alkali. Overall chlor alkali industry demand in the first half of 2015 has not improved from 2014 levels as we had originally anticipated. This is reflected by the industry operating rates which have averaged 82% for the first half of 2015, compared to 84% during the first half of 2014. Olin's 83% operating rate during the first six months of 2015 has been comparable to the first six months of 2014.

During 2015, there have been two chlorine price increases announced, the last of which was a \$40 per ton increase announced in May. As a result, the chlorine price indices increased \$35 per ton during the first half of 2015, which is the first increase in the chlorine price indices since the second quarter of 2011. We expect some additional increase in chlorine prices to occur during the balance of the year. At the same time, caustic soda prices have declined during 2015.

During the second quarter of 2015, compared to the first quarter of 2015, Olin realized higher chlorine prices but they were offset by lower caustic soda prices. The second quarter of 2015 ECU netback was approximately \$505 per ton compared to approximately \$510 per ton in the second quarter of 2014, and consistent with the first quarter of 2015 netback of \$505. In the third quarter of 2015, we expect the ECU netbacks to be comparable to the second quarter of 2015 as higher chlorine prices are once again expected to be offset by lower caustic soda prices.

A combination of customer outages and Olin planned and unplanned outages resulted in second quarter 2015 chlorine shipments declining 12% compared to the second quarter of 2014. We experienced approximately \$7 million of additional costs for maintenance turnarounds during the second quarter of 2015 compared to last year's second quarter. Our second quarter 2015 operating rate was 84%.

We're expecting third quarter demand in our system to be comparable with the second quarter. As a result, we expect the Chlor Alkali operating rate to be in the mid-80% range.

Second quarter 2015 shipments of hydrochloric acid decreased 12% compared to the second quarter of 2014. Potassium hydroxide shipments decreased 10% from the second quarter 2014 level.

We continue to be able to sell hydrochloric acid at a premium to the price of chlorine.

Second quarter 2015 shipments of bleach increased 2% from the second quarter of 2014.

A key objective in the Chlor Alkali business continues to be growing the amount of our chlorine capacity that is sold as bleach and hydrochloric acid and over the past five years, our bleach volumes have grown at a compound annual growth rate of 9% and our hydrochloric acid volume has

grown at a compound annual growth rate of 6%. Second quarter 2015 Chlor Alkali segment earnings of \$25 million decreased, compared to \$40.8 million in the second quarter of 2014, primarily due to lower chlorine and caustic soda volumes, lower ECU netbacks, and higher maintenance turnaround costs.

The second quarter 2015 segment results included a gain of \$9.9 million from the Becancour, Canada property damage insurance recoveries, which related to costs incurred and expensed in prior periods. Chlor Alkali segment EBITDA during the second quarter 2015 was \$50.6 million. Chlor Alkali third quarter earnings are expected to be lower than the third quarter 2014 segment earnings, primarily due to lower caustic soda volumes. We also expect the contribution from hydrochloric acid to decline approximately \$2 million year-over-year in the third quarter.

Now turning to the Chemical Distribution business. Financial performance for Chemical Distribution in the second quarter of 2015 improved significantly compared to the second quarter of 2014 as a result of the growth in shipments of Olin-produced bleach, hydrochloric acid, potassium hydroxide, and improved caustic soda margins.

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

In the second quarter of 2015, caustic soda shipments in the distribution business were lower than the second quarter 2014 levels but were offset by improved caustic soda margins. Chemical Distribution second quarter of 2015 earnings were \$2.4 million compared to breakeven in the second quarter of 2014.

The increase in earnings is the result of higher shipments of bleach, hydrochloric acid, potassium hydroxide, and higher caustic soda margins. Second quarter 2015 Chemical Distribution segment EBITDA was \$6.3 million.

We expect the third quarter 2015 financial performance to the Chemical Distribution business to improve, compared to both the second quarter of 2015 and the third quarter of 2014. We expect sales volumes in the third quarter to increase for all products compared to the second quarter.

Year-to-date, 2015 chemical distribution and EBITDA has increased 60% from 2014 levels. As a result of the continued growth in bleach, hydrochloric acid, and potassium hydroxide sales, and the ongoing focus on improving the returns in caustic soda, we continue to expect that the EBITDA generated by the chemical distribution business in 2016 will double compared to the 2014 level of \$16 million.

Now turning to Winchester. Winchester experienced a 12% increase in commercial ammunition shipments in the second quarter of 2015 compared to the second quarter of 2014. This level of commercial ammunition shipments demonstrates a continued strength in demand. As a point of reference, second quarter 2015 commercial volumes were approximately 33% higher than the second quarter of 2012 levels which was the last non-surge second quarter we experienced.

The strength of the business is also reflected in the commercial backlog which at the end of the quarter was in excess of \$255 million. Again as a point of reference, June 30, 2015 commercial backlog was more than double the pre-surge June 30, 2012 backlog of \$124 million. Consumer demand for pistol, shotshell, rifle, and rimfire ammunition was robust in the second quarter.

In addition to the improved ammunition demand, segment earnings benefited from the continued growth in cost savings from our centerfire ammunition relocation project. During the second quarter of 2015, the cost savings realized exceeded \$9 million and we're confident that the full year 2015 cost savings will reach approximately \$35 million. The 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 would be realized beginning in 2017.

Segment earnings for Winchester in the second quarter of 2015 were \$33.9 million compared to \$33.1 million in the second quarter of 2014. Winchester segment EBITDA during the second quarter 2015 was \$38.1 million. The second quarter 2015 year-over-year increase in segment earnings reflects lower commodity and other material costs and lower manufacturing costs partially offset by a less favorable product mix.

During the second quarter 2015, the purchase cost of copper and lead declined compared to the second quarter of 2014 while the purchase cost of zinc increased compared to the second quarter of 2014. The net effect was a reduction in year-over-year commodity costs.

We currently expect the full year 2015 purchase cost for copper and lead to be lower than the 2014 price and the full year 2015 purchase price for zinc to be higher than the 2014 price. We expect the overall effect to be a year-over-year reduction in commodity metal costs.

We are still confident that commercial ammunition demand will remain higher than the levels we experienced prior to the surge that began in late 2012. We expect 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 savings, will result in improved Winchester segment earnings in 2015 compared to 2014.

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. The prospects for Winchester continue to be bright as the business benefits from strong demand further enhanced by the ongoing centerfire ammunition relocation cost reduction project.

With that, 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 Corp. - VP and CFO*

Thanks, John. First I would like to discuss the balance sheet and the 2015 cash flow.

Cash and cash equivalents at June 30, 2015 totaled \$232.4 million compared to \$245.6 million at June 2014. During the first half of 2015, working capital employed increased by approximately \$52 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. During the first half of 2014, working capital increase was approximately \$93 million.

Capital spending in the second quarter of 2015 was \$27.8 million. Depreciation and amortization expense during the second quarter was \$34.7 million. We have reduced our expectations for the full-year 2015 capital spending and are now forecasting that full year capital spending will be in the \$105 million to \$115 million range. We continue to forecast the full year 2015 depreciation and amortization expense will be in the \$140 million range.

During the second quarter, Olin repaid \$1.1 million primarily for 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. The second quarter of 2015 results included a pretax gain of \$52.2 million related to property damage and business interruption insurance recoveries resulting from the June 2014 incident at one of the two chlor alkali production units at our Becancour, Canada facility. A portion of the insurance recovery related to reimbursement of direct expenses incurred by Chlor Alkali that was included in its segment results and totaled \$9.9 million. The remainder of the gain was recognized as other operating income.

The second quarter of 2015 included acquisition-related costs of \$10.5 million associated with advisory, legal, accounting, integration, and other professional fees; and interest expense included \$11.6 million for acquisition financing expenses.

During the third quarter of 2015, we expect to incur acquisition-related costs of approximately \$17 million and acquisition financing expenses of approximately \$8 million, which will be included in interest expense.



Selling and administration expenses decreased \$1.8 million in the second quarter of 2015, compared to the second quarter of 2014. This year-over-year decrease was primarily due to lower stock-based compensation expense of \$2.2 million which includes mark-to-market adjustments. As a reminder, each \$1 change in the stock price increases or decreases selling and administration expense by approximately \$750,000. Selling and administration expense as a percent of sales were 7% in both the second quarter of 2015 and 2014.

Second quarter 2015 charges to income for environmental, investigatory, and remedial activities were \$5.1 million compared to \$1.2 million in the second quarter of 2014. These charges related primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites.

The third quarter 2015 expenses for environmental investigatory and remedial activities are forecast to increase from the third quarter of 2014 by approximately \$6 million. This forecast does not include any recovery of environmental, investigatory, and remedial costs incurred and expensed and prior periods.

On a total company basis, defined benefit pension plan income was \$7.4 million in the second quarter of 2015 compared to \$7.5 million in the second quarter of 2014. As a result of the newly mandated mortality tables issued in the fourth quarter of 2014 by The Society of Actuaries, we expect 2015 defined benefit pension plan income to 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. During 2015, we do expect to contribute approximately \$1 million to our Canadian defined benefit pension plan.

During the second quarter of 2015, Olin recorded a pre-tax restructuring charge of \$700,000 associated with permanently closing a portion of the Becancour, Canada chlor alkali facility and the ongoing relocation of the Winchester rimfire -- I'm sorry, Winchester centerfire ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi.

We anticipate third quarter 2015 restructuring charges of approximately \$1 million.

The effective tax rate in the second quarter of 2015 was 33.6%. We continue to believe that the full-year 2015 effective tax rate will be in the 34% to 37% range.

On July 23, Olin's Board of Directors declared a dividend of \$0.20 on each share of Olin common stock. The dividend is payable on September 10, 2015 to shareholders of record at the close of business on August 10, 2015. This is the 355th 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 are forward-looking statements and results could differ materially from those projected.

Some of the factors that could cause actual results to differ are described without limitations in the Risk Factor section of our most recent Form 10K and in our second quarter earnings release. A copy of today's transcript will be available on our website in the investor section under calendar of events. Earnings, press release, and other financial data and information are under press releases.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Frank Mitsch, Wells Fargo Securities.



Frank Mitsch - Wells Fargo Securities, LLC - Analyst

A couple questions on the transaction. When do you think the timing -- what is your guesstimated timing of the shareholder vote? And did you guys have an estimate from the Dow side as to what that business generated in the second quarter in terms of EBITDA? I know that the first quarter was hampered somewhat by a turnaround, so I'm just curious if you guys had -- what that second quarter number -- EBITDA number was.

Joseph Rupp - Olin Corp. - Chairman and CEO

We do not have that number from them at this point in time. That will come out when we revise the S-4, Frank. And our intention right now is for anticipating the shareholder meeting in early to mid-September.

Frank Mitsch - Wells Fargo Securities, LLC - Analyst

All right, early to mid-September and then it will be a couple weeks after that in terms of when you could close the transaction, is that correct?

Joseph Rupp - Olin Corp. - Chairman and CEO

That is correct. We are -- want to be as early in the fourth quarter as possible.

Frank Mitsch - Wells Fargo Securities, LLC - Analyst

All right, terrific. And Joe, this is -- this transaction is obviously yet another of the consolidation that we've seen happen in chlor alkali and I'm just curious from your perspective in terms of looking at the regulatory agencies, etc. There's been some speculation about another possible move in the chlor alkali space in terms of a combination.

Do you have a sense as to how favorably or not favorably the regulatory agencies might look at this? Is this something that we might be able to see some more consolidation take place even after you get together with Dow?

Joseph Rupp - Olin Corp. - Chairman and CEO

I think -- and naturally, Frank, it depends on who it is, but I think there's always -- there's still a significant number of chlorine and chlor alkali producers and I think that the proper guys put together, there is room for -- we always said one more, but if there's some room for another one, that would be great.

Frank Mitsch - Wells Fargo Securities, LLC - Analyst

All right, great. And lastly, since we last spoke from your last conference call, Mitsui did put its option and it appears like you guys picked up their part of the JV at a reasonable multiple. Any insights as to what happened there and what are your thoughts now that you have the entirety of that operation?

Joseph Rupp - Olin Corp. - Chairman and CEO

I'm not totally sure exactly what happened because that was a deal between Dow and between Mitsui. I do know that they had the opportunity to exercise it and chose to do it. From our perspective, while we hold Mitsui at high regard and hope to continue a relationship in some way with them, we think having control of the most moderate and cost-effective membrane facility in the world is an advantage to us.



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

Thanks so much.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

I know you don't have an estimate for Dow's EBITDA yet, but based on the data you seen so far, do you know if the results have been better or worse than you would've expected, given the current demand supply environment?

Joseph Rupp - *Olin Corp. - Chairman and CEO*

Obviously we can't comment because we don't know. What we would say is that we could comment on the first quarter results, which in the S-4 indicate where they ended up and they did have an outage, which affected their first quarter and if you take that into account, the first quarter is exactly what we would've expected them to be.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, great, and do you have a sense of what the seasonality is for the earnings of the chlor alkali chlorinated organics and epoxy businesses for Dow?

John Fischer - *Olin Corp. - President and COO*

We actually think there's very little seasonality in their business compared to ours.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And can you clarify what amount of debt and liabilities you're adding to your balance sheet from the transaction?

Todd Slater - *Olin Corp. - VP and CFO*

As of -- we're going to assume approximately -- after the Mitsui tag approximately \$600 million of debt. We're also going to assume pension liabilities of approximately \$400 million, and on top of that, we're going to be a little over \$2 billion of additional cash will be required at closing to fund the transaction.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay and I believe because of your overfunded pension status, there's a possibility you may not have to assume all of the \$400 million. Is that still your understanding?

John Fischer - *Olin Corp. - President and COO*

The total pension liability that we are assuming domestically is \$400 million. There's another \$130-odd million we have to assume internationally. We do not -- we believe there is a better than 50% probability that the \$400 million we're assuming will require no funding on our part going forward.

So we are assuming \$400 million of liability. We don't believe it will cost us anywhere near \$400 million.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, I understand. And lastly was the \$52 million of insurance gains, was that included in your previous guidance?

John Fischer - *Olin Corp. - President and COO*

No, it was not.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, great, thank you.

Operator

Don Carson, Susquehanna Financial.

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

Just a question on near-term ECU fundamentals. We've hit pretty low operating rates which normally would help support caustic here, so what is the issue with caustic? Is it weak domestic demand, weak export demand, or just more imports because of the strong dollar or some combination of the three?

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

It's probably a combination of the three, Don. For us, mostly, as we look at our corporate and as we look at the other domestic players it's demand-driven. There's just not robust demand and when we look just at the second quarter of our results, we had significant weakness in several of the key segments that are, you know, major caustic consumers for us, namely pulp and paper which is to some extent was driven by a strong (technical difficulty).

Joseph Rupp - *Olin Corp. - Chairman and CEO*

I think that the overall market, if you look at it, is flat is really what it is and we're still digesting some additional capacity that came along a year ago. We are not getting the growth that we need to get to absorb that.



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

And then post the Dow deal, what kind of shutdowns do you see in some of your stranded assets in order to reduce chlorine shipments by rail, thinking of up in Quebec as well as McIntosh? And then will that capacity be shut down permanently or you will just do some deep bottlenecks within the existing Gulf Coast system?

Joseph Rupp - *Olin Corp. - Chairman and CEO*

Don, obviously we can't talk about that until we close but after we close, we will be able to lay out what our plan of action is. I think a couple of things we'd say is certainly the Gulf Coast is the lowest cost manufacturing location in the world and there's opportunities for us and we will make that clearer after we get a chance to close.

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

Okay, thank you.

Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - *Sidoti & Company - Analyst*

If we look at some of the metrics out of the housing market after a tough Spring, things seemed to pick up into the Summer. Could you talk about why we are not seeing that translate into chlorine demand for your third quarter guidance?

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

Well when we look at our exposure to housing, we really have limited exposure to the vinyl segment today as Olin exists today. Probably our biggest exposure is urethanes. We do see some improvement in urethanes demand from our customers going into the third quarter and we've reflected some of that.

They were off significantly in their second quarter consumption of chlorine based on outages at their plants in the different companies' networks. So we do reflect some improvement in that and for us, it will show up in urethanes and TIO2 predominantly.

Christopher Butler - *Sidoti & Company - Analyst*

Could you talk to us about the bleach and 2% growth year-over-year in your seasonally strongest quarter? Was that below expectation? Is there a reason for that?

John Fischer - *Olin Corp. - President and COO*

The second quarter is not the strongest, the third quarter is. Typically July, August has encompassed that. I think we would say that the second quarter was really not as robust as we would've expected just based on overall weather, cool and wet.

Joseph Rupp - *Olin Corp. - Chairman and CEO*

Totally, we had a very slow start to the bleach season. It did not have what we had anticipated.

Christopher Butler - *Sidoti & Company - Analyst*

And the environmental cost ticking up here in the second and then third quarter, is this a structural change or just a temporary increase to environmental costs?

John Fischer - *Olin Corp. - President and COO*

We had a very low environmental cost last year. I think they were about \$10 million compared to a run rate that was more like \$20 million over the prior several years and we would see that that -- we're going to be closer to the normal run rate in 2015 than we were in 2014.

Christopher Butler - *Sidoti & Company - Analyst*

And just one more if you let me. Is the transaction nearest to you and taking on significant debt with the deal -- do you anticipate any change to your dividend policy post-deal?

Joseph Rupp - *Olin Corp. - Chairman and CEO*

What I would say -- the right answer for me to say is that the Board considers it every quarter based upon all the elements, but our -- what we like to say, Chris, is we've paid a dividend for 355 consecutive quarters. We understand the importance of it and we fully intend to continue it.

Christopher Butler - *Sidoti & Company - Analyst*

All right, appreciate your time.

Operator

Edlain Rodriguez, UBS.

Edlain Rodriguez - *UBS - Analyst*

Just one question. Just trying to pick your thoughts on how do you see the dynamics of chlor alkali changing in the medium-term? What needs to happen over the next year for the market to pick up? Because China is decelerating, so it doesn't look like the global economy is improving. So essentially what needs to be -- what's going to be the key driver for improvement in the chlor alkali market over the next year?

Joseph Rupp - *Olin Corp. - Chairman and CEO*

Supply and demand have to be more in alignment and that's what is going to have to happen. Hopefully there will be a little bit more demand and people address the supply situation.

Edlain Rodriguez - *UBS - Analyst*

So you think it's going to be a combination of both, like somebody has to shut down capacity?

Joseph Rupp - *Olin Corp. - Chairman and CEO*

I do.

Edlain Rodriguez - *UBS - Analyst*

As the biggest player in the industry now, obviously it's not going to be you because you have the lowest cost so -- okay, somebody else is to do it.

Quick question on Winchester. It's performing extremely well, probably above normal, so what do you see a normalized EBITDA for that business? I think in the past you mentioned a number, so is it still near that? And is that going to be 2016 or 2017 where we get to that level?

John Fischer - *Olin Corp. - President and COO*

The number we've given out in the past is we see Winchester being able to generate at least \$125 million of EBITDA in every period. I would think looking -- as we look at just where we are today, I think 2016 optimistically will be above that. We've still got tailwinds coming from the cost reductions from Oxford and that's going to be able to put us in a position to offset any kind of volume declines we experience.

Joseph Rupp - *Olin Corp. - Chairman and CEO*

Yes, I think that's fair. \$125 million plus EBITDA.

Edlain Rodriguez - *UBS - Analyst*

Okay, thank you very much.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

I guess I just wanted to understand the statement you made earlier in the call regarding the S-4. So you said that you will be issuing an updated statement proxy but did you also say that manufacturing cost savings would offset any ECU weakness or can you just clarify why you think that the pro forma projections are still valid?

Joseph Rupp - *Olin Corp. - Chairman and CEO*

What we talked about was the first quarter, if you looked at the first quarter, it took into account what the EBITDA that was reported, took into account the statement and the MD&A from Dow about the outage they have. If you took a look at that first quarter, it would be right on what our expectation would've been.

Arun Viswanathan - RBC Capital Markets - Analyst

Right, no, but earlier, I guess, in your prepared remarks, you noted that there's significant cost savings on the manufacturing side, but you would be issuing a new S-4, so what would the new S-4 have as far as updated projections?

Joseph Rupp - Olin Corp. - Chairman and CEO

I think we're combining two statements. Those cost savings, on the side of when we take over, the S-4 -- there's another S-4 that has to be filed that will incorporate our second quarter and Dow's second quarter. I think at one point we were trying to (multiple speakers)

Arun Viswanathan - RBC Capital Markets - Analyst

But we shouldn't expect any changes I guess to the future projections and fairness opinion and so on?

John Fischer - Olin Corp. - President and COO

No.

Arun Viswanathan - RBC Capital Markets - Analyst

Okay, great. And then you characterized Dow's chlorine products business as the lowest cost amongst your competitors. How would you characterize your own system and where do you see opportunities to bring those costs down?

Joseph Rupp - Olin Corp. - Chairman and CEO

Our system has some plants that are competitive and some plants that are not as competitive and what we have to take -- bear in mind is that while our plants are not in the Gulf Coast, they are regional and while they may have some manufacturing cost disadvantages, oftentimes they have logistics advantages.

So what we have to do is look at the -- and we are as you can imagine -- we know what we need to do and we will be in a position to be able to talk about that after we close.

Arun Viswanathan - RBC Capital Markets - Analyst

Okay, great. And then I guess I also wanted to delve back into the caustic dynamics. Some of your competitors have had a tougher go of it, given their export position. Has that affected your own operations in your own netbacks and what do you see in the next two to three quarters on the export side?

John McIntosh - Olin Corp. - Sr. VP Chemicals

We don't participate in export market -- Olin doesn't. We do know that export caustic numbers through April were higher -- significantly higher net exports then they were April -- through April of last year.

Having said that, that's not a market we participate in. So it doesn't directly impact us.



Arun Viswanathan - RBC Capital Markets - Analyst

Right, no, I'm aware that it doesn't directly impact you but, obviously, you do good to see some of it through your KA Steel business and it looks like domestic netbacks do ultimately get affected when exports are weak and supply builds back up here but are you seeing any of that on the domestic side as far as increased supply? Would you expect for the next two to three quarters on domestic supply?

John McIntosh - Olin Corp. - Sr. VP Chemicals

The market is oversupplied today and we expect that it will take some time for the supply demand balances to come more in line. So we don't expect a resolution to that problem in the very short term.

We do know that export caustic indices -- pricing indices continue to show weakness, continue to go down mostly month after month. So that's really a reflection on the market's current supply demand imbalance.

John Fischer - Olin Corp. - President and COO

And we did say we expect that our netback in the third quarter will be comparable to the second quarter, reflecting better chlorine pricing and a little bit weaker caustic pricing.

Joseph Rupp - Olin Corp. - Chairman and CEO

But to take a step back on what John talked about, if the indexes -- those who forecast industry, they do not show any further decline in caustic -- domestic caustic pricing.

John McIntosh - Olin Corp. - Sr. VP Chemicals

That's right. So contract --

Joseph Rupp - Olin Corp. - Chairman and CEO

The contract business.

Arun Viswanathan - RBC Capital Markets - Analyst

Right. Okay, that's fair. Last question if I may, you talked a lot about changing the footprint into derivative products. When all is said and done, do you expect your own merchant capacity on caustic to be much lower than where it is now or minorly lower or how would you characterize that? Thanks.

John Fischer - Olin Corp. - President and COO

Our total merchant capacity posted out transaction in absolute terms will go up. But it will go down significantly as a percentage of the total business.

Arun Viswanathan - RBC Capital Markets - Analyst

Okay, that's exactly what I was thinking. Okay, thanks.



Operator

Herb Hardt, Monness.

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

Can you give us some sense of what your blended interest rate will be once you completed the transaction?

Todd Slater - *Olin Corp. - VP and CFO*

The information that we've disclosed in the S-4 -- the average is 4%.

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

And environmental liabilities?

John Fischer - *Olin Corp. - President and COO*

They're going to be unchanged from where we are today as Olin.

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

Okay, thank you very much.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Good luck with the transaction. Could the problem with caustic be high ethylene prices so that the integrated vinyl players look at caustic as a loss leader to move ethylene, so chlorine is just not as linked to caustic anymore like it used to be?

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

I think there is some validity to that. If you look historically, if you go back far enough, there was enough relationship between chlorine and caustic consumers that you had really each class of customers that were ECU customers that took both. A lot of things have happened in the years since that point in time including regulatory change, including increases in global caustic trade, including the phenomenon you just mentioned that I think continued to decouple chlorine and caustic from each other and I think that decoupling is near complete now.

John Roberts - *UBS - Analyst*

I was thinking chlorine used to be the dominant part of the vinyl molecule and so whether chlorine or vinyl went up or down it would affect caustic but now that chlorine is the minority value in the vinyl molecule, maybe those guys don't care where caustic goes anymore.

Joseph Rupp - *Olin Corp. - Chairman and CEO*

I think it's a good -- it's worth considering your premise but I do think that they care a little bit more about the caustic -- there's a floor in caustic that's important to them especially those guys who've invested in chlor alkali assets.

John Roberts - *UBS - Analyst*

All right, okay, thank you.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

All my questions have been answered but I would like to follow up on a couple of things. You mentioned a \$35 ton increase in chlorine pricing in the first half of the year. What was the decline in caustic prices over the same time period?

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

Approximately \$50 on contract price indices.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, okay. And are the spot pricing in the second quarter for caustic are down enough for you to believe that we're going to see down contract pricing in the second half of the year as well on caustic?

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

Forecast for contract pricing indices for the second half of the year is actually flat to slightly up.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay so we should see a stabilization -- it sounds like in the second half of the year at these levels.

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

Yes. If we look at our system as just an indicator of what's going to happen in the caustic market, we've seen significant firming of demand across our system in both grades of caustic, membrane and diaphragm in the last six weeks.

Dmitry Silversteyn - *Longbow Research - Analyst*

So we can look forward to hopefully better utilization rates it sounds like in the third quarter than we saw certainly in the first half of the year but even in the second quarter?



John McIntosh - *Olin Corp. - Sr. VP Chemicals*

We would hope that to be the case.

Dmitry Silversteyn - *Longbow Research - Analyst*

And one final question on distribution business. You talked about volumes for bleach and potassium hydroxide and hydrochloric acid being up, but then overall distribution volumes, I think you said, were down. So was it just the caustic shipments there were down that much and chlorine shipments that they all set these downstream product shipment improvements?

John Fischer - *Olin Corp. - President and COO*

I think our comment was more specific, we just said caustic soda shipments were down. The others were all up. We didn't drive an overall volume comparison.

Dmitry Silversteyn - *Longbow Research - Analyst*

So the decline in distribution revenues then on a year-over-year basis, is that a function of just lower pricing in hydrochloric acid and caustic?

John Fischer - *Olin Corp. - President and COO*

That's exactly right.

Dmitry Silversteyn - *Longbow Research - Analyst*

And are you seeing hydrochloric acid pricing stabilizing? I know a big market for that was fracking but that's been a dead market for long enough, I would think, that price reactions associated with that should've been washed out by now.

Is there anything going on with hydrochloric acid pricing that makes you more confident than better performance in the second half of the year, both in your Chlor Alkali business and the distribution business?

John Fischer - *Olin Corp. - President and COO*

I think the pricing on hydrochloric acid is more or less reached the bottom but it's half of what it was three quarters ago and our volumes as we said in the second quarter were up and we think volumes in price right now were sort of stable but low.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got you. All right, thank you very much.

Operator

Alex Yefremov, Nomura.



Alex Yefremov - *Nomura Securities - Analyst*

Can you tell us what is embedded in your second half 2015 guidance for chlor alkali's segment in terms of caustic soda price? Is it consistent with the index forecast that is out there? That cost will stabilize or do you have a more pessimistic forecast?

John Fischer - *Olin Corp. - President and COO*

The guidance that we've given for Q3 is that the ECU will be flat, relative to Q2 and we talked about where we think the indices are and that's reflected in the guidance going forward. And remember, some of the chlorine and caustic price moves in the indices, lags in our system. So declines in Q2 on caustic were usually reflected in Q3 and the reverse is true on the increases we saw in chlorine. We said we expect to get some benefit in chlorine in Q3.

Alex Yefremov - *Nomura Securities - Analyst*

Makes sense. So is all of Q3 price benefit in chlorine a function of prior price increases? And if so, do you expect any more additional chlorine price hikes?

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

Typically at this time of the year, with some of the seasonal demands for chlorine with not much room in front of them for the balance of the year, it would be atypical to see a chlorine price increase, but the industry is facing margin loss across the ECU and we continue to explore ways to try to improve or add back to the margin we lost because of the current pricing environment.

Alex Yefremov - *Nomura Securities - Analyst*

Thank you. And a final question if I may, have you been able to assess the reliability history of Dow's chlor alkali assets that you're buying and how does that history compare to Olin's system and also to the industry in general?

Joseph Rupp - *Olin Corp. - Chairman and CEO*

What I would say is that we have been extremely impressed with the reliability, the engineering, and the state of all the assets that Dow -- we are buying from Dow, so we believe that we are buying into a very reliable system.

Alex Yefremov - *Nomura Securities - Analyst*

Thank you very much.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

In addition to seeing some firming demand in caustic in your system, did you indicate that there could be a few planned outages in the industry that could impact caustic supply?



John McIntosh - *Olin Corp. - Sr. VP Chemicals*

We don't have any outages scheduled in our system for the third quarter and I'm not aware of any other major outages scheduled in the third quarter around the industry. Typically in the fourth quarter, there are outages scheduled and we do have some outages scheduled in the fourth quarter.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, I know you will be expanding in the 16 new derivative products but do you have an estimate for what the percentage of overlap and Dow's chlor alkali EBITDA would be with your legacy chlor alkali EBITDA?

John Fischer - *Olin Corp. - President and COO*

I'm not sure I understand the question.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

I guess just how much overlap there is in the two end markets between your business and Dow's in the earnings streams.

John Fischer - *Olin Corp. - President and COO*

Anything that's chlorine related, there's no overlap at all.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay.

John Fischer - *Olin Corp. - President and COO*

And they sell caustic and we sell caustic and that's about the overlap.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Great, thank you.

Operator

Alex Yefremov, Nomura.

Alex Yefremov - *Nomura Securities - Analyst*

Just wanted to make sure, did I hear that correctly that you expect caustic soda volumes to decline year over year in the third quarter and if that is correct, what is driving that? It looks like you expect higher utilization on a year-over-year basis.

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

I don't remember -- caustic demand third quarter - second quarter to third quarter, I believe, is relatively flat.

Alex Yefremov - *Nomura Securities - Analyst*

I guess I was thinking more year over year. Is caustic soda demand also flat for up or is it down? If it's not part of your prepared remarks then I apologize.

John McIntosh - *Olin Corp. - Sr. VP Chemicals*

For us it's flat.

Joseph Rupp - *Olin Corp. - Chairman and CEO*

For the industry it's flat.

Alex Yefremov - *Nomura Securities - Analyst*

Okay, thank you.

Operator

Ladies and gentlemen, at this time, I'm showing no additional questions. This will conclude our question-and-answer session. I would like to turn the conference call back over to Mr. Rupp for any closing remarks.

Joseph Rupp - *Olin Corp. - Chairman and CEO*

I want to thank you for joining us today. We look forward to talking to you in October when we report our third quarter and hopefully successfully report on the closing of our Dow transaction. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference call, we do thank you for attending. You may now disconnect your telephone lines.

Editor

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