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# EDITED TRANSCRIPT

## OLN - Q3 2012 Olin Earnings Conference Call

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**OVERVIEW:**

OLN reported 3Q12 net income of $28.7m or $0.35 per diluted share. Expects 4Q12 net income per diluted share to be $0.30-0.35.



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## CORPORATE PARTICIPANTS

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**John Fischer** *Olin - SVP and CFO*

**John McIntosh** *Olin - SVP Operations*

## CONFERENCE CALL PARTICIPANTS

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

**Christopher Butler** *Sidoti & Company - Analyst*

**Edward Yang** *Oppenheimer & Co. - Analyst*

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**Gregg Goodnight** *UBS - Analyst*

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## PRESENTATION

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**Operator**

Good morning, and welcome to the Olin Corporation third-quarter earnings conference call. All participants will be in listen-only mode.

(Operator Instructions)

After today's presentation, there will be an opportunity to ask questions.

(Operator Instructions)

I would now like to turn the conference over to Mr. Joseph Rupp, Chairman, President and CEO. Please go ahead, sir.

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

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

Last night, we announced the net income in the third quarter of 2012 was $28.7 million, or $0.35 per diluted share, which compares to $47.2 million, or $0.58 per diluted share in the third quarter of 2011. Thirdquarter 2012 earnings in our Chlor Alkali business declined compared to the third quarter of 2011, due to the lower chlorine and caustic soda volumes and lower ECU netbacks. These declines more than offset increased bleach and potassium hydroxide volumes and improved hydrochloric acid pricing. Third quarter 2012 bleach shipments of 50,000 ECUs set a record. Winchester third quarter 2012 segment earnings improved, compared to the third quarter of 2011 segment earnings. And that was due to improved pricing and lower commodity costs.

During the third quarter of 2012, Olin generated adjusted EBITDA of $81.3 million, and we continue to believe that we have the opportunity to generate a record level of adjusted EBITDA in 2012. Our fourth quarter 2012 net income is forecast to be in the $0.30 to $0.35 per diluted share range. Chlor Alkali segment earnings in the fourth quarter of 2012 are expected to increase slightly compared to the fourth quarter of 2011, as higher volumes more than offset lower pricing. Fourth quarter 2012 Chlor Alkali volumes are forecasted to be negatively impacted by anticipated seasonal customer outages and weaker-than-expected customer demand. Fourth quarter





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Chlor Alkali forecast also includes one-time costs totaling approximately $3 million associated with four scheduled plant maintenance outages. Winchester earnings in the seasonally weak fourth quarter are expected to more than double compared to the fourth quarter of 2011. The fourth quarter 2012 forecast includes approximately $3 million of pretax restructuring charges.

The third quarter was a significant one for Olin, as we achieved a number of strategic milestones. First, we completed the acquisition of KA Steel on August 22. KA Steel is a chemical distributor, uniquely focused on the distribution of only chemicals that Olin produces. For this reason, we believe the acquisition will enhance our commodity chemical business by increasing the amount of our core Chlor Alkali capacity that can be sold as value-added products. KA Steel contributed segment earnings of $1.9 million, and EBITDA of $3.6 million in the third quarter.

The acquisition of KA Steel should enhance Olin's profitability, while improving our performance in all points of the economic cycle. We believe that we will realize between $7 million and $10 million of synergies during the first year of ownership, and we will achieve annual synergies of at least $35 million at the end of three years. These synergy opportunities include increasing the sale of bleach, hydrochloric acid, potassium hydroxide, freight and logistic cost rationalization, and improved caustic soda sales and distribution.

Our second accomplishment in the quarter was to support the KA Steel; we did issue $200 million of senior notes. These notes, which have an interest rate of 5.5% and a 10-year maturity fit nicely with our objective of maintaining staggered maturities, while maintaining manageable towers of debt that come due in any single year.

Third, in September, the Chlor Alkali business successfully started the second of our low salt, high strength bleach plants in Niagara Falls, New York. This follows the successful start up of our salt and bleach plant at McIntosh, Alabama that occurred during the first quarter. The new plant has the capacity to manufacture approximately 33,000 ECUs of bleach, which increases the amount of our chlor alkali capacity that can be sold as bleach to 15%. We expect the third low salt, high strength bleach plant, located in Henderson, Nevada, to be operational in the first quarter of 2013, and this will further increase the amount of our chlor alkali capacity that can be sold as bleach to 17%.

Fourth accomplishment in the quarter was the first of the two new membrane technology chlor alkali cell rooms at Charleston, Tennessee, that successfully started up in September. This cell room produces caustic soda. The second Charleston membrane cell room, which will produce potassium hydroxide, is scheduled to start up in November. And with this, the production using mercury cell technology in Charleston will be completed. At that point, Olin will have successfully exited chlor alkali in Charleston.

The fifth accomplishment was the start up of the first cell room in Charleston, the mercury cell chlor alkali production in Augusta, Georgia plant was also discontinued. The Augusta facility will continue to operate as a distribution facility, but will no longer manufacture chlorine and caustic soda. Finally, the ongoing Winchester centerfire relocation project also achieved a significant milestone in the third quarter. Less than one year after the new building in Oxford, Mississippi was completed, the project began to operate and began to generate positive returns. We continue to believe that the annual cost savings after the relocation is completed will be approximately $30 million, and that the benefit in 2013 should be in the $10 million to $15 million range.

The combination of these strategic initiatives provides Olin with the opportunity to generate in excess $400 million of adjusted EBITDA in 2013. This will be driven by the inclusion of the KA Steel cash flow benefits and synergies for a full year from the centerfire ammunition relocation and further growth in the sale of bleach in the range of 10% to 15%. This opportunity exists in an environment where 2013 capital spending should decline to levels well below what had been incurred annually in 2011 and 2012.

Let me discuss the Chlor Alkali and Winchester segments in more detail. The third quarter of 2012 Chlor Alkali segment earnings were negatively impacted by a number of factors. Third quarter 2012 chlorine and caustic soda volumes declined 5%, compared to the third quarter of 2011. Chlorine shipments to two large end-use markets, vinyls and titanium dioxide, declined 15% and 24% respectively, when compared to 2011 third-quarter levels. Chlorine volumes late in the quarter were also negatively impacted by an earlier-than-normal seasonal outage at a pipeline customer, and the normal seasonal slowdown in bleach.

The third-quarter 2012 operating rate was 83%, compared to 85% in the third quarter of 2011. We did not experience any significant impact due to the hurricane Isaac. Currently expect fourth quarter volumes to be seasonally weak, reflecting several customer outages and four scheduled Olin plant outages. We currently expect the fourth quarter operating rate to be in the mid-70% range.

During the third quarter, bleach continued to be a positive contributor to our earnings. Year-over-year third quarter 2012 bleach volumes increased for the 19th consecutive quarter and reached a record level of 50,000 ECUs. Third quarter 2012 volume represented a 9% increase over third quarter of 2011, and the premium earned on the sale of bleach compared to the sale of chlorine and caustic soda exceeded $150 per ton.

ECU netbacks in the third quarter of 2012 were approximately $560, compared to approximately $595 in the third quarter of 2011 and approximately $575 in the second quarter of 2012. The sequential decline in the netback reflects lower chlorine prices. In the fourth quarter 2012, we expect netbacks to improve, as benefits from





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the second quarter 2012, $60 per ton caustic soda price increase, more than offsets continued weakness in chlorine pricing. We believe that approximately $40 of the second quarter price increase will ultimately be reflected in the market. The current weakness in chlorine demand will support caustic soda price increases. We also believe that some portion of the third quarter price increase, which ranged between $35 and $80 per ton will be reflected in the first half of 2013.

The Chlor Alkali segment earned $59.5 million in the third quarter of 2012 and generated approximately $80 million of segment EBITDA during the quarter. This compares to third quarter 2011 segment earnings of EBITDA of $76.7 million and approximately $90 million respectively. The year-over-year decline in the Chlor Alkali segment earnings reflects the combination of lower chlorine and caustic soda volumes, lower ECU prices, and the start-up costs associated with the new Charleston membrane plant and the Niagara Falls low salt, high strength bleach plant. These costs totaled $4.9 million during the third quarter. Fourth quarter 2012 Chlor Alkali segment earnings are expected to improve slightly, compared to the fourth quarter of 2011 segment earnings.

Now, let me turn to Winchester. Winchester continues to experience robust commercial demand with year-to-date ammunition purchases nationally estimated to be 25% higher than during the same period 2011. Winchester's September 30, 2012 commercial backlog, which was more than double September 30, 2011 level, evidence of the current strength of the commercial market. Winchester's total backlog as of September 30, 2012 exceeded $200 million. As a result of this, third quarter 2012 commercial sales increased 13% compared to the third quarter of 2011. This strength offset weaker law enforcement and military sales, which declined 21% in the third quarter of 2012, compared to third quarter of 2011. A portion of this decline was due to the timing of military shipments, which were delayed until the fourth quarter.

Winchester sales in the seasonally weak fourth quarter are forecast to decline compared to the third quarter but are forecast to increase year over year. Winchester earned $16 million in the third quarter of 2012, compared to $13.1 million in the third quarter of 2011. The combination of improved pricing and lower commodity metal costs more than offset higher manufacturing costs and other material costs. The portion of the year-over-year increase in manufacturing costs is attributable to higher depreciation, created by the ongoing centerfire relocation project. For the first time in several quarters, Winchester's commodity metal costs declined on a year-over-year basis. The average acquisition price of lead declined approximately 10%, while average zinc and copper acquisition prices declined 12% and 5% respectively.

I mentioned earlier that during the third quarter, the centerfire relocation project began to generate positive returns. During the first quarter of 2012 -- or fourth quarter of 2012, these returns will become significant. And this contributes to our forecast that Winchester's fourth quarter 2012 earnings will more than double compared to fourth quarter of 2011. And I'll remind you that's our seasonally weak quarter, the fourth quarter.

In late September, we were notified by the United States Army that our joint-venture company, US Munitions was not the successful bidder for the Lake City Army Ammunition Plant contract. However, also in late September, Winchester was awarded a $22 million addition to the second year of the five-year second-source small caliber ammunition contract with the United States Army. The second year of the second-source contract will be delivered from the middle of 2013 to the middle of 2014.

In spite of the year-over-year decline in earnings at our Chlor Alkali business, I feel positive about the direction that Olin is headed as we move towards 2013. Within the Chlor Alkali business, the value added by bleach should continue to grow, while the benefits of the centerfire ammunition relocation will become significant. Further, the addition of the KA Steel business for a full year, when combined with realization of synergies, should provide a meaningful year-over-year improvement in earnings and cash flow.

I'm going to turn the call over now to our Chief Financial Officer, John Fischer. John.

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**John Fischer** *- Olin - SVP and CFO*

Thanks, Joe. First, I'd like to discuss a few items on the income statement. Selling and administration expenses increased $2.6 million, or 7%, in the third quarter of 2012, compared to the third quarter of 2011. This increase was primarily due to an increase in mark-to-market adjustments for stock-based compensation and expenses associated with the acquired KA Steel business. Selling and administration expenses were approximately 7% of sales, in both the third quarter of 2012 and the third quarter of 2011.

Third quarter 2012 charges to income for environmental, investigatory, and remedial activities were $3.6 million. Third quarter 2011 charges to income for environmental, investigatory, and remedial activities were $2.5 million, which included $1.5 million of recoveries from third parties for environmental costs incurred in expense and prior periods. After giving consideration to the recoveries in 2011, year-over-year expense related to environmental, remedial, and investigatory activities decreased by $400,000. These charges related primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites. We now estimate that full-year 2012 expenses for environmental, investigatory and remedial activities will be in the $8 million to $12 million range. We do not expect any environmental recoveries in the fourth quarter of 2012.



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On a total company basis, defined benefit pension plan income was $5.6 million in the third quarter of 2012, compared to $6 million in the third quarter of 2011. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2012. Under the Pension Funding Relief Provisions of the Moving Ahead for Progress in the 21st Century legislation, we may not be required to make any additional contributions to our domestic defined benefit pension plan for several years. The plan will, however, face higher PBGC fees as a result of the legislation.

During 2012, we have made cash contributions to our Canadian defined benefit pension plan of approximately $600,000. As a reminder, under Canadian pension rules, service costs are required to be funded annually. Defined contribution pension plan expense was $4.2 million in the third-quarter 2012, compared to $3.5 million in the third quarter of 2011. The vast majority of our employees now participate in the defined contribution pension plan. As a reminder, our domestic defined benefit plan is frozen to new entrants, all salaried and non-union hourly, and most union employees.

During the third quarter, Olin recorded a $2.3 million restructuring charge. This charge was primarily associated with employee severance and relocation expense associated with the ongoing Winchester centerfire relocation project and the exiting of the use of mercury cell technology in our chlor alkali manufacturing process. We expect to incur approximately $7 million of additional restructuring charge associated with the chlor alkali projects through 2013, and approximately $11 million of additional restructuring charges associated with the Winchester relocation between now and the end of 2016. We expect total restructuring charges in 2012 related to these projects to be approximately $9 million.

The effective tax rate for the third quarter was 38.5%, which included $1.2 million of one-time expenses primarily associated with previously undistributed earnings from Winchester's Australian operations and the finalization of 2011 federal and state tax returns. Excluding these items, the third quarter 2012 effective tax rate would have been 36%. We currently expect the full-year 2012 effective tax rate, which reflects the favorable adjustments recorded in the second quarter to be approximately 34%. Due to the level of capital spending in 2012 and the corresponding accelerated depreciation, the forecasted 2012 cash tax rate is approximately 17%.

Now, turning to the balance sheet. Cash and cash equivalents at September 30, 2012, including the restricted cash associated with the Go Zone and Recovery Zone financings that are classified as long-term assets on the balance sheet totaled $121.6 million. As of September 30, 2012, the restricted cash balance was $18.5 million, and we believe the majority of that restricted cash will be utilized during 2012. During the third quarter of 2012, the working capital employed declined by approximately $36 million. This is consistent with the normal seasonal pattern that causes working capital to increase during the first two quarters of each year, to be followed by two quarters of working capital decline.

During the first two quarters of 2012, working capital increased by approximately $72 million. We expect an additional reduction in working capital in the fourth quarter of 2012 of approximately $40 million. Capital spending during the first nine months of 2012 was $210.8 million. Of this total, approximately 48% supported the Charleston mercury cell technology conversion project, and approximately 22% supported the three low salt, high strength bleach projects. As a result of these projects, we currently expect full-year 2012 capital spending to be in the $240 million to $250 million range.

With the completion of the Charlton conversion project in 2012, the completion of two of the three HyPure bleach facilities, and lower levels of Winchester centerfire ammunition relocation capital spending, we expect 2013 capital spending to be approximately $100 million to $140 million lower than the elevated 2012 level. The combination of high levels of capital spending and the acquisition of KA Steel will result in increased levels of depreciation and amortization expense. 2012 depreciation and amortization expense is forecast to be in the $110 million range, and we expect this to increase to the $130 million to $140 million range in 2013.

During the third quarter of 2012, as Joe mentioned, we issued $200 million of 10-year senior notes at an interest rate of 5.5%. This issuance, which was used to help fund the acquisition of KA Steel, increased Olin's total debt to $715 million. Within the debt outstanding, there are no significant maturities until 2016, and the weighted average duration of the debt is in excess of nine years. Contributing to this duration is $80 million of the recovery zone bonds, which mature in 2033 and 2035. During the fourth quarter of 2012, $12.2 million in debt payments will be made on the SunBelt notes, which require annual payments through the end of 2017.

In spite of the additional debt that has been added to support the recent investment projects and the acquisition of KA Steel, the Olin balance sheet remains strong. As I just mentioned, the Company does not foresee any significant debt maturities for several years. We are an entering a period of significantly lower capital spending, and we do not foresee any near-term cash contributions to the large domestic defined benefit pension plan.

Yesterday, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on December 10, 2012, to shareholders of record at the close of business on November 9, 2012. This is the 344th consecutive quarterly dividend to be paid by the Company.

Before we conclude, let me remind you that throughout this presentation, we have made statements regarding our estimates of future performance. Clearly, these are forward-looking statements, and results could differ materially from those projected. Some of the factors that could cause actual results to differ are described without limitations in the risk factor sections of our most recent Form 10-K, and in the third quarter earnings release. A copy of today's transcript will be available on our website in the investor section under Calendar of Events. The earnings press release and other financial data are available under Press Releases.



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Operator, we are now ready to take questions.

## QUESTION AND ANSWER

**Operator**

Thank you, sir.

(Operator Instructions)

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

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

Joe, I have to tell you, your facility in Oxford is something to behold. Very impressive, and I must say, the food is great, too.

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

Thank you, Frank.

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

You were talking about the chlor alkali demand and chlorine demand being down I think 15% for PVC customers and 24% in the TiO-2 arena. What are you hearing from your customers with respect to the fourth quarter in those areas?

**John McIntosh** *- Olin - SVP Operations*

Frank, this is John. We have not heard anything that would indicate to us that there's going to be a dramatic change in demand. We're looking really for volumes to be relatively flat.

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

All right. Great. And I would assume then that if your operating rates are in the mid-80%s, something like that, you have a lot of confidence with respect to the cost of price increases being realized?

**John McIntosh** *- Olin - SVP Operations*

We do. If you look at the last industry operating rate numbers that were released, there was a pretty significant drop in industry operating rates. And we don't expect that to get significantly better in the fourth quarter either, so we think we're positioned well for caustic pricing momentum to be positive.

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

That September rate, I think it was 79% for the industry overall, so that September rate is indicative of where you think the fourth quarter is trending -- might trend?

**John McIntosh** *- Olin - SVP Operations*



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Yes, sir, I believe that to be the case. The operating rate dropped 5% from September to October. So, as we look at operating rates for the industry, we think that's going to be indicative of what we're going to see in the fourth quarter. There have been several outages, including some in our system that have been announced by the various producers. So, everything seems to support that same trend.

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

All right, great. And Mr. Fischer, you talked about lower capital spending next year, and lack of pension contributions, et cetera. So, can you just remind us of your priority uses of cash with respect to debt pay down, share buyback, et cetera?

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**John Fischer** - ***Olin - SVP and CFO***

Well, debt pay down, we're just going to pay down based on the terms of the debt we have, so we don't have any significant maturities until 2016. We have between now and then about $12 million a year to repay on the SunBelt notes, and there's one other small issuance of $11 million or $12 million that gets repaid next year. So, that's not a priority.

I think our priorities would go in order of we continue to look for opportunities to invest in the business that will improve cash flow and EBITDA. I think as we've said historically, we believe that the dividend is a key component of our shareholder value proposition, and that Olin has had a lot more success over a long period of time rewarding shareholders with dividends than we have with share repurchases.

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

Okay, terrific, thank you.

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**Operator**

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

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**Christopher Butler** - ***Sidoti & Company - Analyst***

This question may be better suited for your customers than you, but as you look at the demand environment for chlorine, looking out a little bit, and with some of the more optimistic numbers coming in from the US housing market, how do you see volumes beyond the fourth quarter as we look into 2013 a bit?

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**John McIntosh** - ***Olin - SVP Operations***

I would guess that, at face value, with very little historical information, you would tend to believe that operating rates are going to go up. But the first quarter, again, doesn't have much seasonal chlorine demand in it, and even the vinyls demand associated with housing isn't typically a first quarter -- seen as a first quarter impact. So, in order to be -- we're going to have to get a lot closer to the second quarter of next year, I think, Chris, to really be confident that there's really increased demand behind some of this anecdotal evidence on housing improvement.

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**Christopher Butler** - ***Sidoti & Company - Analyst***

And I'd have to imagine, correct me if I'm wrong, but due to your position in the supply chain, and when vinyl often gets used in the construction of a house, that there's generally a decent lag before you would start to see any real benefit. Does that sound about right?

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**John McIntosh** - ***Olin - SVP Operations***

That's why I mentioned the second quarter, yes, that would be right.





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**Christopher Butler** - ***Sidoti & Company - Analyst***

And shifting gears to Winchester a little bit, could you give us an idea of what the savings were here in the third quarter from the restructuring? And could you talk to the demand environment this year with the election, and how you think this plays out next year in a post-election year?

**John Fischer** - ***Olin - SVP and CFO***

The savings in Q3 were not significant. Q3 was the quarter where we actually went from them being a negative to them being a positive. And we talked about fourth quarter savings actually becoming significant. So, when we talked about the doubling -- more than doubling of Winchester's earnings driven by that year over year in the fourth quarter.

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

You have -- the demand has certainly picked up. The question is what's the major driver for it? One big piece of it is that we're in the peak season for hunting right now, so historically our demand picks up pretty dramatically right now, and it has. We've had a pretty good hunting season, and of course, there's concerns as to what happens from an election perspective, as you recall. We've forecast that there will be pretty reasonable demand through the balance of the year, and actually, our sense is that that will carry over through the first quarter next year.

**Christopher Butler** - ***Sidoti & Company - Analyst***

And just to be clear, when you're saying just turning the corner on the savings versus the cost, that's net the restructuring cost that you point out, correct?

**John Fischer** - ***Olin - SVP and CFO***

No, that is the costs that are imbedded in the Winchester results.

**Christopher Butler** - ***Sidoti & Company - Analyst***

All right, thank you, I appreciate the clarification. I'll go back in the queue.

**Operator**

Our next question will come from Edward Yang of Oppenheimer. Please go ahead.

**Edward Yang** - ***Oppenheimer & Co. - Analyst***

Maybe start with some modeling questions. The $1.1 million charge to eliminate the KA Steel contribution, how does that work? Was it eliminated on the revenue line and then -- maybe an explanation there?

**John Fischer** - ***Olin - SVP and CFO***

That represents sales of caustic soda from Olin Chlor Alkali to KA Steel. The revenues are eliminated. And to the extent that that product that was shipped from Chlor Alkali to KA Steel was not sold by KA Steel, the profit recognized by Chlor Alkali was reversed. That is showing up as a charge in our corporate and other segment line. That number will -- there will be a number there every quarter because we will be selling caustic to KA Steel from our chlor alkali business. And it will get trued up every quarter. Our expectation is that the volumes sold through there will not change dramatically in the short run, so that number will not be significant moving forward.





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**Edward Yang** - ***Oppenheimer & Co. - Analyst***

Okay. Why don't you just eliminate it as an inter-company elimination versus grossing up the numbers and then taking a charge?

**John Fischer** - ***Olin - SVP and CFO***

We're going to do that, and we're going to just take it as an inter-company elimination in the corporate and other line.

**Edward Yang** - ***Oppenheimer & Co. - Analyst***

Okay, got it, got it. And the interest expense on the $200 million notes, you pay that, I believe, semi-annually. But from a book purpose, are you accruing the interest quarterly?

**John Fischer** - ***Olin - SVP and CFO***

The interest was accrued in the third quarter from August 22 forward.

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

Right.

**Edward Yang** - ***Oppenheimer & Co. - Analyst***

Okay, and then -- but again, accruing going forward, it's going to be quarterly, although you pay it out semi-annually?

**John Fischer** - ***Olin - SVP and CFO***

That's correct.

**Edward Yang** - ***Oppenheimer & Co. - Analyst***

Okay, got it. And the four scheduled outages that you're going to have in the chlor alkali business, how much is that subtracting out from your utilization?

**John McIntosh** - ***Olin - SVP Operations***

In one of the earlier questions we were talking about an industry operating rate in the mid- to high-70s. These outages will reduce our available capacity by about 3%, so we're talking about, for our system, a mid-70s number for the fourth quarter.

**Edward Yang** - ***Oppenheimer & Co. - Analyst***

Got it. And staying with Chlor Alkali, John, maybe thinking longer term, operating rates, really over the last two to three years, have been in the mid-70s, to the low-80s, et cetera. And historically, those levels are not indicative of a very healthy demand, and more associated with sluggish demand levels. If we see those types of operating rates going forward, what do you think -- how close are we in terms of seeing some additional industry capacity rationalization? Is there any movement on that front in terms of taking down capacity --?

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



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First and foremost, Edward, we took capacity out in this quarter, as you know. So, it's 160,000 tons that has come out in September and October of right now. So, that's a first step. There's still a little dab of mercury cell capacity sitting out there unknown to us exactly what those who own it will do, but I don't think -- we think that that might be the kind of capacity that would come out. And there is some other strain of capacities that I'm sure higher-cost facilities that we'd be taking a look at in an environment of over-capacity.

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**Edward Yang** - ***Oppenheimer & Co. - Analyst***

Well, do you think that, if we could just stay within a range here in the 70s and the 80s, are we going to see pricing continue to flatten out or are there improvements? I know in the short term, you are seeing some improvement on caustic soda pricing, but I would assume that you're not going to have a lot of pricing power, or the industry is not going to have a lot of pricing power until you see operating rates move up higher than current levels.

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

I think our thinking is, is that the caustic -- the slow down that we're experiencing on the chlorine side is going to strengthen caustic, as you know, which will allow the remainder of announced price increases to come into fruition in the first quarter of next year. If things remain that way, it will keep caustic tight. If the economy picks up with building and repair and replacement market picks up as well from a building, ultimately, and exports pick up, you would see higher operating rates on chlorine, which ultimately would manifest itself in increased prices on the chlorine side.

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**Edward Yang** - ***Oppenheimer & Co. - Analyst***

Okay, thank you for the color.

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**Operator**

Our next question will come from Don Carson of Susquehanna Financial. Please go ahead, sir.

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

John, I just wanted to clarify a few things on Chlor Alkali. So, you were indicating that 81% September effective industry rate was already down 5 points in October?

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**John McIntosh** - ***Olin - SVP Operations***

Yes, sir, that was the announcement that came out just very recently. 81% was the September number, which was down 5% from August. October's won't be available for another --.

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

Okay, I heard you say -- I thought I heard you say that October was down 5 points --.

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**John McIntosh** - ***Olin - SVP Operations***

(multiple speakers) I may have --.

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

Okay. Secondly, just remind me, what was your ECU realization this quarter versus last?



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**John Fischer** - ***Olin - SVP and CFO***

It was approximately $560; third quarter was approximately $570.

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

Right. Okay. And John, what's your TiO-2 customer telling you about their level of demand in Q1? Are you still expecting some weak TiO-2 end markets going into next year as well?

**John McIntosh** - ***Olin - SVP Operations***

I don't know that we've really gotten an indication directly from any of our TiO-2 customers about anything past the current quarter. I believe their long-term trends into 2013 indicate that they expect that market to pick back up, but I've not seen any indication whether that's a first quarter, second quarter or -- when in '13 that expectation is.

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

Okay. And then shifting over to the caustic side, with a slowing industrial economy, what are you seeing from a demand standpoint from your caustic customers domestically?

**John McIntosh** - ***Olin - SVP Operations***

We have not seen a significant change. If you look at our last quarter segment analysis, we did see relatively flat pulp and paper numbers, demand on pulp and paper. We did see a little bit of decrease on the super-absorbent market segment, but that was driven some case by customer normal scheduled outages. We've not seen much change in caustic. We have minimal caustic inventory in our system. We've built some caustic inventory to deal with the outages we have scheduled in the fourth quarter. We're still operating on 100% order-control basis with our caustic customer base.

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

Okay, and then final question, as you think -- I think previous people have been trying to get to -- what is your sweet spot in terms of operating rates? But what would you think of as a threshold where industry operating rate where caustic would lose pricing power? Is that getting up over 90% operating rates again?

**John McIntosh** - ***Olin - SVP Operations***

If you look historically, that's been the range at which chlorine demand will cause caustic supply to move to the long -- to a long position. That would be a pretty good number to use, I think, based on history.

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

Okay, thank you.

**Operator**

Our next question will come from Herb Hardt of Monness, Crespi and Hardt. Please go ahead.

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



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Now that you have this capacity pretty much online, what is your maintenance CapEx expected to be next year?

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**John Fischer** *- Olin - SVP and CFO*

Maintenance capital is probably in the $70 million to $90 million range across the spectrum of Chlor Alkali and Winchester.

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

And KA Steel.

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**John Fischer** *- Olin - SVP and CFO*

And KA Steel, yes.

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

Okay. Second question is this $60 million tax benefit from the KA Steel, is that just going to show up as a lower tax rate, or is it a one-time item? How will that be reported?

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**John Fischer** *- Olin - SVP and CFO*

It is going to show up as lower cash taxes. It will not run through the effective tax rate, and it will be realized over a 10- to 15-year period.

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

Okay.

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**John Fischer** *- Olin - SVP and CFO*

We talked about it, Herb. It's actually the -- that gross value of the benefit is about $120 million.

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

It's discounted. (multiple speakers)

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**John Fischer** *- Olin - SVP and CFO*

[This is] the net present value of it.

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

Thank you very much.

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**Operator**

Our next question will come from Aleksey Yefremov of Banc of America Merrill Lynch.



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**Aleksey Yefremov** *- BofA Merrill Lynch - Analyst*

John, could you talk about latest trends in freight rates and also electricity costs?

**John McIntosh** *- Olin - SVP Operations*

Freight rates have been relatively flat. Our third quarter freight rates, sequentially, were flat with what we saw in the second quarter of this year. And when you look at year to year on freight, the freight rate is actually down marginally in the third quarter of 2012. Electricity rates, as we move into the fourth quarter, which is the non-peak period for electricity, we, for sure, won't see any peak pricing. The industry operating rates are such that we should see relatively flat, no-change kind of electricity pricing.

**Aleksey Yefremov** *- BofA Merrill Lynch - Analyst*

Great, thank you. And in terms of your volumes this quarter, were your volumes impacted at all by your outages, plant shut-downs and start-ups? Or this is purely a function of customer demand?

**John McIntosh** *- Olin - SVP Operations*

Purely a function of demand. The outages that we had associated with the conversions and the normal maintenance outages were well within the window that we could have -- would have made -- would have met demand regardless.

**Aleksey Yefremov** *- BofA Merrill Lynch - Analyst*

Okay. And finally, if I may, could you just talk about KA Steel transition? How is it going so far, customer feedback, et cetera?

**John McIntosh** *- Olin - SVP Operations*

It's been very positive so far. We have seen nothing that would deter us from what we have said before, that it's a very positive investment opportunity for Olin. We've seen nothing that would change our commitments to the synergy levels in year one and year three that were mentioned in the remarks. We're very comfortable with our ability to retain customers and suppliers. So far, no surprises.

**Aleksey Yefremov** *- BofA Merrill Lynch - Analyst*

Okay, great, thanks a lot.

**Operator**

Our next question will come from Dmitry Silversteyn of Longbow. Please go ahead.

**Dmitry Silversteyn** *- Longbow Research - Analyst*

A couple of questions. The shipping rates have been answered, but can you talk about what your capacity is going to be like once you're done with the mercury transformation? You've shut down one plant; you are in the process of shutting down or converting the production in the other. I had your capacity as just under 2,000 short tons. Is that the right number to look at?

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



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I think it's higher than that, isn't it? It ends up [2,050] when the capacity comes out? We can give you the exact number on that, but our capacity actually is coming down 160,000 tons.

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**John Fischer** - ***Olin - SVP and CFO***

Which is about 7%.

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**Dmitry Silversteyn** - ***Longbow Research - Analyst***

So, it will be down to about [205] then, from about 2.2?

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

Larry can validate that for you.

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**Dmitry Silversteyn** - ***Longbow Research - Analyst***

Okay. That's fine. That's great. Even with that 7% of capacity coming out, you're still looking at a fairly low utilization rate in the fourth quarter? That's based off of new capacity, that you were talking about?

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

Yes.

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**Dmitry Silversteyn** - ***Longbow Research - Analyst***

Okay, just wanted to confirm. On Winchester, it sounds like things are getting significantly better there, especially with the benefits of the centerfire relocation starting to flow through. You talked about doing the fourth quarter, twice the -- or better than twice the earnings you did in the fourth quarter of last year, which was only $0.5 million, if I remember correctly. So, are you still looking at low single-digit type of profitability in terms of millions of dollars for that business in the fourth quarter?

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**John Fischer** - ***Olin - SVP and CFO***

Less than $5 million, yes.

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

Yes.

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**Dmitry Silversteyn** - ***Longbow Research - Analyst***

Okay, less --.

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

I think the key point we're trying to make is that we've crossed over the line to where we're -- the plant is up and operating, and we're starting to see the savings, and that will continue to increase as we move through next year.



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**Dmitry Silversteyn** - ***Longbow Research - Analyst***

Got it. Okay. That's helpful. And then finally, on the chlorine and the sodium hydroxide pricing, you gave us the ECU netback, which includes your transportation costs, but if you just look at the caustic price, can you tell us what your average was for the quarter?

**John McIntosh** - ***Olin - SVP Operations***

We don't separate it out, but we will tell you that we're forecasting caustic pricing to increase as a part of the ECU movement in the fourth quarter.

**Dmitry Silversteyn** - ***Longbow Research - Analyst***

By about $40, I think you mentioned?

**John McIntosh** - ***Olin - SVP Operations***

The $40 is an estimate of what the market will realize, and then there will be some timing lag and discount to that as we work that $40 market price realization through our system.

**Dmitry Silversteyn** - ***Longbow Research - Analyst***

Got it. Okay, that's helpful. That's all the questions I had, thank you.

**Operator**

Our next question will come from Gregg Goodnight of UBS. Please go ahead.

**Gregg Goodnight** - ***UBS - Analyst***

Dmitry did a great job in asking all my questions, so I appreciate that. The only question I had remaining was, with Augusta down, are you going to recapture some of that volume by moving that demand to other plants? And it seems to me that if you do that, you would actually get some improvement in operating rates overall. I was surprised to hear a mid-70s number for your expected operating rates in 4Q.

**John McIntosh** - ***Olin - SVP Operations***

The fourth-quarter number is influenced by outages, customer demand, and just the typical seasonal change that we see. Obviously, as we've taken capacity out of our system, we would expect to see, as we move into the periods -- the quarters where we have peak demands, to have higher utilization rates. We will not -- just because we've shut down operations at Augusta, we will still continue to serve customers. We're converting that Augusta operation to a terminal. We will still produce bleach there, and we will, to the extent necessary, bring product in from other manufacturing locations to serve other product requirements in that geography.

**Gregg Goodnight** - ***UBS - Analyst***

Concerning the four shutdowns you mentioned, in total, what percentage of your capacity will be unavailable as a result of the shutdowns in the fourth quarter?

**John McIntosh** - ***Olin - SVP Operations***

Approximately 3%.





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**Gregg Goodnight** - ***UBS - Analyst***

3%. Okay, that's all I had. Thank you very much.

**Operator**

Our next question will come from Richard O'Reilly of Revere Associates.

**Richard O'Reilly** - ***Revere Associates - Analyst***

Joe, in your opening comments, you made a statement about EBITDA -- generating EBITDA of $400 million, or more than $400 million sometime in the future. And it looks like you're going to do about $350 million or so this year. What's your assumptions behind that jump there? KA Steel is part of if, but what else are you looking at?

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

KA Steel, the achievement of the lower cost structure at our Winchester operations, which will significantly improve as we go next year, and the benefits of the bleach investments that we've made this year. All three of those plants will be operating, Richard, next year. So, we're really confident that this is -- that we're going to be moving in that direction.

**Richard O'Reilly** - ***Revere Associates - Analyst***

And KA Steel is, what, still $30 million a year contribution? Is that --?

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

Low $30s million with EBITDA, and as we announced, with synergies of $7 million to $10 million next year.

**Richard O'Reilly** - ***Revere Associates - Analyst***

Okay. Fine. Plus $7 million to $10 million, okay. Thank you.

**Operator**

Ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Mr. JD Rupp for his closing comments.

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

We'd like to thank you for joining us this morning, and we'll look forward to speaking with you in January when we announce the results of 2011. Thank you.

**Operator**

Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.



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