THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

OLN - Q3 2015 Olin Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2015 / 3:00PM GMT

OVERVIEW:

Co. reported 3Q15 sales of $533.6m and income from continuing operations of $5.9m or $0.08 per diluted share. Expects 4Q15 net loss per diluted share, including certain items, to be $0.25-0.30.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Joseph Rupp *Olin Corporation - Chairman, CEO*

John Fischer *Olin Corporation - President, COO*

Todd Slater *Olin Corporation - VP, CFO*

John McIntosh *Olin Corporation - EVP, Olin Chemicals and Ammunition*

CONFERENCE CALL PARTICIPANTS

Frank Mitsch *Wells Fargo Securities, LLC - Analyst*

Jason Freuchtel *SunTrust Robinson Humphrey - Analyst*

Don Carson *Susquehanna Financial Group - Analyst*

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

Arun Viswanathan *RBC Capital Markets - Analyst*

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

Dmitry Silversteyn *Longbow Research - Analyst*

John Roberts *UBS - Analyst*

Tarek Hamid *JPMorgan - Analyst*

Roger Spitz *BofA Merrill Lynch - Analyst*

James Finnerty *Citigroup - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Olin Corporation third quarter 2015 earnings conference call. All participants will be in a listen-only mode. (Operator Instructions) Please note this event is being recorded.

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

Joseph Rupp - *Olin Corporation - Chairman, CEO*

Thank you, Emily. Good morning and thanks for joining us today. With me this morning are John Fischer, President and Chief Operating Officer; John McIntosh, Executive Vice President of Olin Chemicals and Ammunition; 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 third quarter of 2015 was $5.9 million or $0.08 per diluted share, which is consistent with our previous guidance of $0.05 to $0.10 per diluted share. Sales in the third quarter of 2015 were $533.6 million compared to $593.6 million in the third quarter of 2014. Third quarter 2015 results include pre-tax acquisition-related financing and other costs of $22.2 million.

On October 5, 2015, we completed the acquisition of Dow's chlorine product businesses, consisting of Dow's US chlor alkali and vinyls, their global epoxy and global chlorinated organics businesses. This transformational transaction creates a new Olin that is the world's largest integrated chlor alkali, epoxy, and chlorinated organics producer with top-tier, low-cost facilities. I'm going to list a few of these advantages for you.

Number one, we have advantaged electricity, which is approximately 85% generated from low-cost natural gas and hydroelectric power. Number two, we have plant scale, enabling facility fixed costs to be leveraged over a significantly greater asset base.

Number three, we have proximity to customers, enabling us to minimize our largest chlor alkali cost -- rail freight. Number four, we have access to deep water ports and the river system to move product in a most cost-effective manner.

Number five, we own our own brine sources. Number six, we have the only -- we are the only producer of in-house cell maintenance. And number seven, we have ethylene and producer economics. These are just a few of the advantages that we have as a result of the transaction.

Equally important to our low cost is the product diversification that the combined businesses create. Legacy Olin had three outlets for chlorine: the merchant market, bleach, and hydrochloric acid. New Olin now has 19 different areas to place chlorine, making us less cyclical and providing us the option to elect which end market offers the best option for our chlorine.

We are also more geographically diverse -- both in North America, with a large Gulf Coast presence, and globally. The new Olin will generate approximately a third of our revenue outside of North America. The acquisition has significantly diversified our product and geographic base, which will enable us to be less cyclical and provide the foundation for significant shareholder value creation. Since October 6, I've had the opportunity to visit a number of our new locations in both North America and Europe and have been impressed with not just the talent and the experience of our new employees, but their enthusiasm for the opportunities that are ahead for the New Olin.

Because Olin and Dow were competitors, the Olin and former Dow employees have only been fully engaged since the closing. That said, our synergy capture teams are aggressively working on implementing numerous projects. I am optimistic that these efforts will generate at least $200 million in annual cost-based synergies within three years.

Within the first week after closing, we began realizing cost-based synergies by shipping chlorine by rail from one of the newly acquired facilities. As a point of reference, the freight savings from these initial shipments are approximately $5,000 per railcar.

Olin is evaluating idling or permanently closing approximately 250,000 to 450,000 tons of its chlor alkali capacity. As we work through the process of optimizing total manufacturing assets and supply-chain capabilities, we will relocate product production. And this will result in the identification of capacity that will be rationalized. We expect to provide more specifics in the first quarter of 2016.

Our synergy capture teams are also working on new segment and customer opportunities that have a potential for an incremental earnings of $100 million annually. As a part of that effort, Olin has begun the process of installing bleach production capacity at the Freeport, Texas site, which is expected to be operational in 2016. With the integration work we have accomplished since closing, we remain convinced that the New Olin can generate $1 billion of annual adjusted EBITDA without synergies.

Now I would like to turn the call over to our President and Chief Operating Officer, John Fischer, who will discuss the fourth quarter and the businesses in more detail with you.

John Fischer - *Olin Corporation - President, COO*

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

In our seasonally weak fourth quarter, we expect adjusted EBITDA to be in the $185 million to $205 million range, which excludes acquisition-related costs. The fourth quarter of 2015 adjusted EBITDA outlook reflects a seasonal impact of approximately $40 million to $50 million. As a further point of reference, since 2008 Olin has generated an average of 20% of its full-year adjusted EBITDA in the fourth quarter.

Typically, Olin experiences seasonal weakness in ammunition sales and chlorine and bleach sales. The newly acquired businesses also experience seasonal weakness in the fourth quarter and chlorinated organic sales, which are driven by sales to refrigerant producers, and in epoxy sales. Our fourth quarter outlook assumes only a slight improvement in caustic soda pricing from the third quarter. However, the full implementation of $30 per ton of the caustic soda price increase, now reflected in the fourth quarter's caustic soda price indices, would increase quarterly EBITDA by approximately $20 million. As you are aware, we realized the majority of price index movements in the following quarter. The implementation of the caustic soda price increase will provide positive earnings momentum when we enter 2016.

Now let me be more specific about the $1 billion of adjusted EBITDA that Joe just mentioned. Assume that in the seasonally weaker fourth quarter, Olin achieves the midpoint of our adjusted EBITDA guidance of $195 million. This equates to an annual EBITDA of $780 million. The absence of seasonal factors in the other three quarters of the year would increase this annual adjusted EBITDA by approximately $135 million, and the full inclusion of the caustic soda price increase would further improve the adjusted EBITDA by an additional $80 million.

This equates to an annual EBITDA of $995 million without giving consideration to either synergy realization or the likelihood of continued improvement in the epoxy business. Our current forecast for synergy realization in 2016 is approximately $40 million to $50 million. As we look at the fourth quarter adjusted EBITDA forecast, depending on the allocation of corporate costs, costs to capture synergies, and actual synergy realization, approximately two-thirds of that EBITDA is forecast to be realized from the acquired businesses and one-third from the legacy Olin businesses. This is similar to the expected split in revenues.

The fourth quarter 2015 net loss is forecast to be in the $0.25 to $0.30 per diluted share range, including approximately $0.50 per share of acquisition-related costs, acquisition-related financing expenses, and estimated step-up depreciation and amortization.

Now, turning to the performance of the businesses, beginning with Chlor Alkali: Olin's third quarter 2015 operating rate was 86%, and year-to-date it has averaged 84%. During 2015, Olin has experienced improved pricing for chlorine, which has been more than offset by declines in the price of caustic soda.

During the first nine months of 2015, the chlorine price indices have increased by $40 per ton, while the caustic soda price indices have declined by $50 per ton. Consistent with the indices during the third quarter of 2015 compared to the second quarter of 2015, Olin realized higher chlorine prices, but these were more than offset by lower caustic soda prices. The third quarter 2015 ECU netback was approximately $490 per ton compared to approximately $505 per ton in the second quarter of 2015 and $505 per ton in the third quarter of 2014.

The $65 to $75 per ton price increases announced by all the major producers in the third quarter are being implemented, with $30 per ton already reflected in the indices. And approximately 30% of that has been included in our fourth quarter outlook. In both the Olin and the former Dow businesses, the majority of caustic soda price index movements are realized in the quarter following the quarter in which the indices change.

Third quarter 2015 shipments of hydrochloric acid decreased 14% compared to the third quarter of 2014, and potassium hydroxide shipments decreased 20% from the third quarter 2014 level. Third quarter 2015 shipments of bleach were comparable to the third quarter of 2014. A key objective in the Olin Chlor Alkali business continues to be growing the amount of our chlorine capacity that is sold as bleach and hydrochloric acid. Over the past five years, our bleach volumes have grown at a compound annual growth rate of 8%, and the hydrochloric acid volumes have grown at a rate of 4%. We believe there are additional opportunities in these areas as we move forward.

Hydrochloric acid pricing and volumes have declined sequentially year-over-year. As a result, we expect the contribution from hydrochloric acid in the fourth quarter of 2015 to decline approximately $8 million compared to the fourth quarter of 2014. We believe the decline in hydrochloric acid pricing that we have seen over the past four quarters may be ending.

Last week several hydrochloric acid producers announced a price increase. In spite of the recent price declines, Olin continues to be able to sell hydrochloric acid at a premium price compared to chlorine. Third quarter 2015 Chlor Alkali segment earnings of $14.1 million decreased compared to $26.2 million in the third quarter of 2014, primarily due to lower ECU netbacks and lower volumes. Chlor Alkali segment EBITDA during the third quarter of 2015 was $40.4 million.

Now, turning to Chemical Distribution: the financial performance for Chemical Distribution in the third quarter of 2015 improved significantly compared to the third quarter of 2014 as a result of the growth and shipment of Olin-produced bleach, hydrochloric acid, and potassium hydroxide.

During the third quarter of 2015, the business achieved record quarterly levels of shipments of both hydrochloric acid and potassium hydroxide. We continue to be encouraged by the growth in sales of these co-products achieved by our distribution business. Increased sales of these co-products will be a key component in the continued improvement of Chemical Distribution profitability as we move forward.

In the third quarter of 2015, caustic soda shipments in the distribution business were lower than the third quarter of 2014 levels but were offset by improved caustic soda margins. Chemical Distribution third quarter of 2015 earnings were $3.3 million compared to $800,000 in the third quarter of 2014. The increase in earnings is the result of higher shipments of bleach, hydrochloric acid, and potassium hydroxide, and higher caustic soda margins.

Third quarter 2015 Chemical Distribution segment EBITDA was $7.3 million. The year-to-date 2015 Chemical Distribution EBITDA has increased 55% 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 believe that the EBITDA generated by the Chemical Distribution business in 2016 will double compared to the 2014 level of $16 million.

And now Winchester: we continue to see strong evidence that the Winchester business has grown over the past several years. The commercial backlog at the end of the third quarter of 2015 was in excess of $175 million. As a point of comparison, this is almost double the pre-surge September 30, 2012, commercial backlog of $92 million. Consumer demand for pistol, shotshell, rifle, and rimfire ammunition were all strong in the third quarter.

In addition to the improved ammunition demand, segment earnings benefited from the continued growth and cost savings from our centerfire ammunition relocation project. During the third quarter of 2015, the growth in cost savings realized exceeded $4 million. And we are confident that the full-year 2015 cost savings will reach approximately $35 million. These savings in 2014 were $24 million. We also believe the annual cost savings realized from the project, when completed, will reach $40 million, and that this level of annual savings will be realized beginning in 2017.

Segment earnings for the third quarter 2015 were $30.1 million compared to $38.5 million in the third quarter 2014. Winchester segment EBITDA during the third quarter of 2015 was $34.5 million. The third quarter year-over-year decrease in segment earnings reflects the impact of delayed military shipments and lower-than-expected commercial shipments, partially offset by lower commodity and other material costs.

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

In the Winchester business, fourth quarter 2015 segment earnings are expected to be higher than the fourth quarter 2014 levels, primarily due to the improved year-over-year sales volumes and cost savings from the Oxford relocation project. We continue to be confident that commercial demand will remain higher than the levels experienced prior to the surge that began in late 2012, and the outlook for the Winchester business in 2015 and beyond continues to be positive.

Now I'd like to turn the call over to our Chief Financial Officer, Todd Slater, who will go over several financial matters with you.

Todd Slater - *Olin Corporation - VP, CFO*

Thanks, John. First I'd like to discuss the balance sheet and the 2015 cash flow. Cash and cash equivalents at September 30, 2015, totaled $254 million compared to $263.6 million at September 30, 2014. Capital spending in the third quarter of 2015 was $28.6 million. Depreciation and amortization expense during the third quarter was $35.8 million.

We are forecasting fourth quarter capital spending, including the Dow businesses, to be in the $60 million range. While we are -- while we have not completed our valuation of the newly acquired fixed assets or intangible assets, we are estimating total depreciation and amortization expense in the fourth quarter of approximately $115 million, including approximately $30 million of step-up depreciation and amortization expense associated with the acquisition.

As a result of the acquisition on October 5, we issued a total of $2.2 billion of variable-rate term loan debt and a total of $1.2 billion of fixed rate 8 and 10 year bonds. A portion of the new term loans were used to refinance approximately $146 million of previously issued term loan debt.

With our new debt profile we are estimating our fourth quarter interest rate will be in the 4.75% range. During 2016 a total of $188 million of debt will mature. Our priorities for cash over the next two years are funding synergy capture and the repayment of debt. As a result, our expectation is by the end of 2017, the combination of debt reduction and EBITDA growth will reduce our net debt to EBITDA leverage ratio to the range of 2.5 to 3 times.

In conjunction with the acquisition, Olin issued approximately 87.5 million shares, which brought the total shares outstanding to approximately 165 million shares.

Now, turning to the income statement: in the third quarter of 2015, our third quarter 2015 included acquisition-related costs of $14.5 million associated with advisory, legal, accounting, integration, and other professional fees. Interest expense included $7.7 million for acquisition financing expenses.

During the fourth quarter of 2015 we expect to incur acquisition-related costs of approximately $75 million, which includes $35 million of costs associated with the mandatory acceleration of expenses for non-qualified pension benefits, approximately $17 million in investment banking and legal costs, and approximately $13 million of integration and other costs. The fourth quarter will also include acquisition financing expenses of approximately $11 million associated with the bridge financing, which will be included in interest expense.

Selling and administration expenses decreased $6 million in the fourth quarter of 2015 compared to the third quarter of 2014. This year-over-year decrease was due to lower stock-based compensation expense of $4.6 million, which includes mark-to-market adjustments. Selling and administration expenses as a percentage of sales were 7% in both the third quarter of 2015 and 2014.

Third quarter 2015 charges to income from environmental, investigatory, and remedial activities were $7.3 million compared to $1.6 million in the third quarter of 2014. The increase in 2015 compared to 2014 related primarily to a $5.6 million increase in costs associated for remedial activities associated with a past manufacturing operation.

Fourth quarter 2015 expenses for environmental, investigatory, and remedial activities are expected to be in the $1 million to $3 million range. This forecast does not include any recovery of environmental, investigatory, and remedial costs incurred and expensed in prior periods. As a reminder, in conjunction with the acquisition, Dow has retained liabilities relating to litigation, releases of hazardous materials, and violations of environmental law to the extent arising prior to the closing date.

On a total company basis, defined benefit pension plan income was $6 million in the third quarter of 2015 compared to $6.6 million in the third 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 will be approximately $2 million lower than 2014. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2015. However, during 2015 we do expect to contribute approximately $1 million to our Canadian defined benefit pension plan.

Fourth quarter 2015 corporate and other costs are forecast to increase by approximately $5 million compared to the fourth quarter of 2014. The increased corporate infrastructure costs are necessary to support the newly acquired Dow businesses.

The effective tax rate in the third quarter of 2015 was 36.6%. We currently believe that the normalized effective tax rate for the New Olin will be in the 36% to 39% range. However, the fourth quarter effective tax rate will be adversely affected because a portion of the acquisition costs will not be deductible for income tax purposes. This will result in approximately $10 million of additional income tax expense in the fourth quarter.

On October 29th, 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, 2015, to shareholders of record at the close of business on November 10, 2015. This is the 356th 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 Factors" section of our most recent Form 10-K and in our third quarter earnings release. A copy of today's transcript will be available on our website in the investors section under Calendar of Events. The earnings release and other financial information and data are available under Press Releases.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Frank Mitsch, Wells Fargo.

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

I want to ask a question regarding capacity, chlor alkali, etc., but I was just struck, Todd -- 36% to 39% tax rate? Why would it be so high?

Todd Slater - *Olin Corporation - VP, CFO*

Frank, a portion of our taxes will be higher than we have historically shown because of the nature of the Reverse Morris Trust. And a significant portion of our depreciation and amortization will not be tax deductible.

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

All right. So a portion of D&A is excluded from the tax program. So the net on overall is going to be higher. Interesting. All right.

Joe, thank you so much for providing the insights into what you guys are looking at doing in terms of perhaps shutting down or idling some capacity. And I know you're going to comment further on it in the first quarter.

Are these -- the potential shutdown of capacity, I would assume, then, would help you load your other facilities much higher; and there should be some savings as a result of that. Is that included in your $200 million that you have laid out there?

Joseph Rupp - *Olin Corporation - Chairman, CEO*

Yes.

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

Okay. All right, terrific. And then as we looked at the ECU values that you are realizing -- down 3% sequentially and also down 3% year-over-year -- is your sense that we are -- that's a good sign of the bottom? And from this level here, as you mentioned caustic going up, can you comment on where chlorine is going? And is your expectation, then, from this point forward we should be seeing a higher ECU in Q4 and 2016?

Joseph Rupp - *Olin Corporation - Chairman, CEO*

Yes, Frank, as you know, the price of chlorine went up in the index as did the price of caustic. So our sense is that we have bottomed out, and we are moving in the right direction.

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

All right, terrific, thanks so much.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

While it is understandable you will need some time to analyze where and how much capacity you may shut down, roughly how long will it take to move the capacity off-line once you make your decision?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

I would think -- this is John McIntosh. I would think once we decide, we will have to deal with issues around co-products production. Most of our sites have co-products production there, so we will have to deal with resourcing our customers in those businesses. But I would think that within a six month period, we ought to be able to take care of all of those issues and get to a site closure.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, and could discussions about chlor alkali and capacity rationalizations by you and some of your competitors impact near-term price negotiations?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

I don't know. I have no idea what competitors are going to do. We are looking at capacity optimization on our system, because we are looking at ways to take advantage of the new assets that we currently own. And when we put those new assets in with our legacy assets, we have a different footprint and a different capability to serve the customers in the markets more economically. And that is what drives us.

You know, at the end of the day, we believe that supply/demand will dictate pricing in this industry. It always has. But we are driven by the ability to more economically serve our customers.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. And you noted in the release that you will start producing bleach in Freeport soon. How many of your three previously idled pieces of bleach equipment are you installing in the location?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

We have surplus bleach equipment in our system that isn't installed. Plus, we have potential for bleach assets that could be idled through rationalization. The project at Freeport will install one bleach manufacturing unit initially.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

But you could potentially add some of the other idled bleach equipments to other locations?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

That's possible, yes.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. And then how much natural gas will you purchase on a pro forma basis? And how should we think about the impact of the recent decline in natural gas prices on a pro forma basis?

John Fischer - *Olin Corporation - President, COO*

Jason, we have historically not talked about our energy costs. That, as a chlor alkali producer, is the most sensitive piece of information we have.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Sure. Okay, great. Thanks, guys.

Operator

Don Carson, Susquehanna Financial.

Don Carson - *Susquehanna Financial Group - Analyst*

Yes, I just want to go to your $1 billion run rate. It would seem that if you are at $195 million in Q4, and that is typically 20% of your full-year earnings, that gets you almost -- you know, it basically gets you to $975 million, anyway. So if you throw in $80 million of caustic, plus I see the indices look like they are going to go up again in the fourth quarter, and throw in $40 million, $50 million of synergies, you should be well above $1 billion of EBITDA in 2016. Any reaction to that calculation?

John Fischer - *Olin Corporation - President, COO*

I think that is entirely possible.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. And then what -- as you shift production, say, at the high end of 450,000 tons to the Gulf Coast facilities, how much lower is the plant gate cost for these facilities versus the existing Olin system?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

We have not commented on those numbers, Don, historically. But I will tell you there is a significant difference. If you look at the legacy Olin plants, those plants were built and operated as regional locations, so they serve regional demand. Because of that, their operating model has a significant barrier to competition associated with freight coming out of other Gulf Coast locations.

So our legacy plants, in fact, are regional plants. And there is a significant difference between most of those and the acquired plants. And we will just have to figure out the right configuration of our new system take advantage of all of those capabilities which we have now that we have not historically had.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

I think, Don, we may have talked about in the past that if you look at the cost curve of the 30 chlor alkali plants in North America, that we've acquired plants that are in the low -- the first quartile, the lowest quartile. And we and many others, we and other producers have plants -- Olin and other producers have plants that are up in the upper quartile. So those would be the plants that you -- probably very naturally would be the ones that get affected.

Don Carson - *Susquehanna Financial Group - Analyst*

And then a final question on logistics. As you optimize a system - because I know at the old Olin, about half your merchant chlorine was shipped by rail -- what will the new system be in terms of overall rail shipments? And presumably what rail shipments you have will be much shorter as well, so if you can just comment on -- you know, is there potential upside in your shipping synergy calculations?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

Part one of the big part of the synergy number that was mentioned in the remarks is driven by logistics and freight savings associated with taking advantage of capacity at lower-cost plants than we currently have to serve customers. I think there will be a dramatic impact both in terms of the savings component in dollars associated with that and the reduction in the amount of actual miles traveled by our product on rails.

John Fischer - *Olin Corporation - President, COO*

One big opportunity we have, Don, is we ship chlorine by rail into our St. Gabriel site, which as the crow flies is about 10 miles from the Plaquemine location that we acquired. We intend to connect those two plants by pipeline. That's a longer-term project, but that will eliminate a meaningful amount of chlorine miles and take chlorine absolutely off the rails.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you.

Operator

Aleksey Yefremov, Nomura.

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

Could you talk about your alkaline economics and how these economics could change in the fourth quarter compared to third quarter and also in 2016?

John Fischer - *Olin Corporation - President, COO*

Generally speaking, we have acquired the right to acquire ethylene at producer cost. That is a 20-year deal. And we have the opportunity to acquire more ethylene at producer cost later in time -- some in 2017, some in 2020. I would tell you that what DCP sold in the third quarter was essentially export EDC.

That EDC was profitable in the quarter because of the low-cost ethylene and the low cost chlorine that they have, but obviously not as profitable in the third quarter of this year as it might have been in the third quarter last year. One metric I would give you is that we believe that a $0.01 change in the price of ethylene, assuming it flows through to the value of EDC, is worth about $4 million on an annual basis to Olin.

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

And maybe as a follow-up, do you typically see your EDC pricing fluctuating with US ethylene monomer, or with some other ethylene benchmark, perhaps a global ethylene benchmark?

John Fischer - *Olin Corporation - President, COO*

It fluctuates more with Asian ethylene pricing than US ethylene pricing.

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

And a final question, if I may. You mentioned potential for improvement in epoxies in 2016. Could you tell us what your expectations are for that business?

John Fischer - *Olin Corporation - President, COO*

I would just say if you look at where the business was in 2013 and you have seen the business in 2014 and the first half of 2015, it has been on a nice upward trend. And we would expect that trend to continue.

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

Thank you very much.

Operator

Arun Viswanathan, RBC.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Just a question on the synergies for 2016. Could you help us understand the 250,000 to 450,000 tons of potential capacity take-out -- how that relates to the $80 million in footprint optimization that you are targeting over the three years? What portion what that would -- yes.

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

Let me try that. As we look at relocating, resourcing customers and providing them with material from the closest available source -- and hopefully the lowest cost available source -- we will reconfigure our system as we have historically operated it. We will get a benefit in that process in several different ways.

We'll get a benefit on freight and utilization of transportation equipment. We will get a benefit on the potential for lower manufacturing cost assets being brought to bear as opposed to maybe product that historically was produced somewhere at a higher cost. And as we look at the entire process, we will see those multiple benefits across the reconfiguration we do. And those are all part of our estimated synergy number.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Right. So, I guess, said another way, you are targeting 250,000 to 450,000 for 2016; but we should not assume that that captures all of the $80 million in footprint optimization.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

That's correct.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

You are right, Arun. That is correct. It does not capture all of it.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Is there a way you can -- yes.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

We will give you more clarity on that, as we said, in the first quarter. We will try to make it a little bit more clear to you as to what the impact is.

Arun Viswanathan - *RBC Capital Markets - Analyst*

And that implies that there could be even further rationalization opportunities.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

There is going to be the opportunity to achieve more synergies.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay, and then if I may, on Winchester: going into the quarter, I guess you got into a slightly higher number. Maybe you can just help us understand if that's accurate or what you're looking for. I know initially you had said $125 million run rate, but you are tracking well above that on an annual basis. So where would you put the annual run rate on Winchester?

Joseph Rupp - *Olin Corporation - Chairman, CEO*

What we said is that -- a minimum of $125 million of EBITDA. And so we will see that $125 million of EBITDA. The only thing that we would tell you is that in the quarter we did have in late quarter some customer push-outs because of the fact that there is a little bit of replenishment that has occurred in a couple of segments, in .22s and .40s and .45s.

As we look forward, as we stated in our comments, we actually are looking for a quarter in the fourth quarter that will be better than last year. That is driven by two things. One is lower costs; and, secondly, it is going to be impacted by the fact that we actually have some really interesting new products that are being introduced in the fourth quarter, which will help as well.

John Fischer - *Olin Corporation - President, COO*

Yes. The other thing I would just mention is that the third quarter 2015 was the second-best third quarter Winchester has ever had. So it just did not quite meet up with what we had expected when we looked at it three months ago.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay, understood. And lastly, on the chlor alkali markets, you will now start playing, I guess, in the export side through your ownership of DCP. Can you just comment on what your prospects are there, and if you are seeing over capacity, or any plans to improve the supply/demand balance there? Thanks.

John Fischer - *Olin Corporation - President, COO*

I would just say that the DCP business historically has exported caustic soda. They typically export it under long-term contracts that --.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay.

John Fischer - *Olin Corporation - President, COO*

So you don't see a lot of variability around that.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

And they have the ability, because of what we talked about in my comments -- we're on the Gulf Coast, we've got low costs, and we can ship from there very cost-effectively.

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

Through August of this year, exports from the US, because of its superior competitive cost position for manufacturing chlor alkali products -- exports are up 8% from prior year and are on a pace to establish a new high in terms of export volume for the year. So the export market is very strong for US-based chlor alkali producers who have assets and access to serve that market.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thank you.

Operator

Herb Hardt, Monness, Crespi, and Hardt.

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

My question is regarding the decline in volumes for KOH and HCl. I know that drilling is down, but what are the other factors that brought about such a sharp decline?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

Drilling and overall activity in the oil patch is responsible for declines in both HCl volume and KOH volume. In KOH, we have seen an additional impact because fertilizers and pesticide production, which are markets that we serve with our product, are down as well. On the HCl side, the other market segment that has been a loser for that industry is really metals and mining.

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

So pretty much everything is down.

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

Yes, sir, pretty much.

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

Okay, thank you.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

First of all, the 250,000 to 450,000 tons that you're looking to rationalize -- is that all North American? Or does that include some international operations?

Joseph Rupp - *Olin Corporation - Chairman, CEO*

North America.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

We don't really have any internationals.

Dmitry Silversteyn - *Longbow Research - Analyst*

Well, you picked them up from Dow, right?

Joseph Rupp - *Olin Corporation - Chairman, CEO*

No, we don't have it.

Dmitry Silversteyn - *Longbow Research - Analyst*

They're going to keep the downstream products.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

Yes.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So there is no place to rationalize the downstream production. You have a -- you were just talking about, basically, chlor alkali plants in North America.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

That's correct.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. And assuming that this comes out of the market, and no new net capacity is being added, how much of a reduction in overall North American market capacity would this represent?

Joseph Rupp - *Olin Corporation - Chairman, CEO*

It's [split 450] on 17 million tons of caustic.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

It's 2.5 to 3%

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, okay. So that is certainly -- assuming the cycle doesn't weaken and gets a little bit stronger, it puts you in a position to get into the low 90s in the summertime utilization rates that you need to push pricing.

Okay. In terms of the closures of these plants, or if you're going to keep them on warm standby or close them completely, should we expect your environmental obligations to go up in the out-years that you begin remediating these plants? Or do you expect most of the plants to be closed that would assume are year-round, so they are not exposed to the Dow guarantee of picking up environmental liabilities? So how should we think about that as part of your corporate expense in 2016/2017 as these plants come off-line?

John Fischer - *Olin Corporation - President, COO*

You should not see any real change in our environmental exposure. What we have is already accounted for.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

I think the other part of it, Dmitry, is we would clarify if there was anything when we talk in January about what we are doing.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. And to follow up on the last question, it doesn't sound like mining and metals are going to get better anytime soon, and I think people are resigning themselves to the fact that we are going to get weaker or at least not significant improvement in the oil markets, at least in the first part of next year. So you mentioned in your prepared remarks that you expect the hydrochloric acid pricing and volume environment to get better. Is that just a matter of anniversarying the worst of the declines? Or do you actually see some drivers in markets perhaps you have not talked about that could support the growth in that business?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

It's really just a function of as we see the activity, especially in oil, that that has balanced out -- appears to have kind of hit a bottom. We do see some information about pricing movements in certain part of parts of the country and certain parts of the shale gas finds. Our assessment is that we think the worst of it is behind us.

We also have the ability -- and we done this really since the weakness in oil became evident to us -- we intentionally moved chlorine out of producing HCl and into the market as chlorine. Because in some cases, as chlorine prices were going up, there was better value for us in doing that.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got you, okay. Switching quickly to Winchester, you talked about a $35 million run rate or $35 million in cost savings achieved in 2015 versus, I think, $24 million in 2014. And you talked about achieving the full $40 million in 2017. So I just want to make sure I heard it right, and you didn't mean 2016. And if it's the case, why is it going to take you an extra three years to get that incremental $5 million in cost savings? I mean, I understand as you get towards the end, it becomes harder and harder to get those costs out, but it just sounds to me like -- I would have expected the $40 million run rate to be a 2016 run rate, not a 2017 run rate.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

End of 2016. We said beginning of 2017 or you could say the end of 2016.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So it is a question of just -- you know, those last $5 million being a tougher nut to crack than the first $35 million?

John Fischer - *Olin Corporation - President, COO*

No. There remain a couple of operations that will not be relocated until 2016. So you will not get the full benefit of that cost reduction during 2016. So to get the full $40 million, you have to get to 2017 on an annual basis.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, got you. Okay, that makes sense. And then final question is on general cash usage. You haven't changed your dividend payout at least in dollar terms for quite a number of years. With what is now a bigger business; Dow shareholders that are used to getting the dividends now becoming part of Olin's shareholders; the more stable earnings performance that you expect out of the combined companies, given all of the diversified products you're going into -- are you starting to think about your dividend policy and starting to look for opportunities to perhaps start increasing dividends on a regular basis, not just paying them on a regular basis?

Joseph Rupp - *Olin Corporation - Chairman, CEO*

What we said, Dmitry, from a uses of cash perspective is our first and foremost is we are going to de-lever. And that is our intent. And then after that, we have said that we will look at all three ways to create value. Are there further acquisitions that makes sense for the new entity to grow?

The other option is through dividends; the other, after two years, would be the opportunity to have share repurchases. So all those are open -- available. And certainly the dividend is decided, naturally, by the Board on a quarterly basis, depending upon a whole variety of factors. I would tell you that from a payout ratio perspective, next to Dow we are -- we have been the number one payer for a long time from a dividend perspective.

Dmitry Silversteyn - *Longbow Research - Analyst*

In terms of percentage of the value of the stock, I would say that certainly is true. Thank you.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Was the DCP business on plan in the third quarter? I assume it was. And was the mix between vinyls, epoxies, and chlor chem as expected?

John Fischer - *Olin Corporation - President, COO*

I think the answer to that is generally yes.

John Roberts - *UBS - Analyst*

Okay. And then the Winchester guidance of higher earnings than fourth quarter a year ago -- that leaves a lot of room for interpretation. Could you narrow that a little bit? Do you expect revenues excluding metals pass-through to be up, for example?

John Fischer - *Olin Corporation - President, COO*

We expect revenues in the fourth quarter of 2015 to be higher than fourth quarter 2014.

John Roberts - *UBS - Analyst*

Okay. Any upward bound you would like to give to us on that?

John Fischer - *Olin Corporation - President, COO*

No.

John Roberts - *UBS - Analyst*

Okay, thank you.

Operator

Tarek Hamid, JPMorgan.

Tarek Hamid - *JPMorgan - Analyst*

One of the key parts of the story was that the DCP assets were burdened with a lot of corporate overhead. In the first month they've had control of the assets, any surprises with the cost structure, or are they coming in right where you thought they would at the asset level?

John Fischer - *Olin Corporation - President, COO*

They've come in exactly where we thought they would from the cost level.

Tarek Hamid - *JPMorgan - Analyst*

Great. And then just one detail question follow-up for me. On the -- you went through some of the expected 4Q integration costs. But on a cash basis, in excess of the $60 million of CapEx, what should we be expecting in terms of cash integration costs in 4Q?

Todd Slater - *Olin Corporation - VP, CFO*

One of the things we have said and was included in the S4 was approximately $100 million of cash payments will be made in the fourth quarter associated with the nonqualified pension plan payments as a result of the change in control, and the remaining amounts that you would expect to be paid in the fourth quarter associated with the acquisition cost -- approximately $30 million that we said. We talked about $75 million of acquisition costs. $30 million of that is cash.

Tarek Hamid - *JPMorgan - Analyst*

Got it, that is very helpful. Thank you very much.

Operator

Roger Spitz, Bank of America Merrill Lynch.

Roger Spitz - *BofA Merrill Lynch - Analyst*

In Chemical Distribution, are you transferring caustic at cost or market? And as your caustic distribution margins expand, as your caustic prices fell, that implies that whatever price you were transferring at fell even further. Is that right?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

We've not disclosed our transfer methodology from one business to the other. What we have said is that margins have expanded in KA Steel as a result of them having caustic to sell. And we have said that there is some synergy created by the manufacturer of assets in chlor alkali that are being sold to and sold into the market by Chemical Distribution. So that is the only comments we've made.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Okay. By the way, will you be providing the full nine-month DCP financial statements in perhaps an 8-Ka? And how you plan to segment going forward?

John Fischer - *Olin Corporation - President, COO*

We do not intend to provide the DCP financials. And how we go forward with segments is something we are still studying.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Thank you very much.

Operator

James Finnerty, Citi.

James Finnerty - *Citigroup - Analyst*

A quick question on CapEx guidance. Previously, you have pointed to a midpoint of $250 million for maintenance and talked also about $200 million of growth CapEx over the three years post the close. Does that growth CapEx -- does that incorporate some costs associated with potential closures? Or would the costs associated with closures be on top of that?

John Fischer - *Olin Corporation - President, COO*

We also talked about $100 million to $150 million of what we call transition costs. And that $100 million to $150 million of transition costs picks up what I will call out-of-pocket costs associated with plant closures.

Joseph Rupp - *Olin Corporation - Chairman, CEO*

Yes, and there is some capital involved in relocation of some assets that is in that $200 million number.

James Finnerty - *Citigroup - Analyst*

Okay. And just on the cash flow, again, you mentioned in 2017 the ability to purchase more ethylene from Dow. I believe Dow has talked about receiving $700 million from Olin. And I guess that would imply a second payment in 2017. What size is the payment that Dow is expecting in 2017 for ethylene?

John Fischer - *Olin Corporation - President, COO*

That has yet to be completely determined.

James Finnerty - *Citigroup - Analyst*

Okay. And in terms of the capacity as of today for Olin pro forma DCP, what is the chlorine capacity? I believe in the slides, you had about 6.2 thousand metric tons. So I was just --.

John Fischer - *Olin Corporation - President, COO*

That's correct.

James Finnerty - *Citigroup - Analyst*

Did that incorporate Dow shutting down capacity post the Mitsui JV coming online?

John Fischer - *Olin Corporation - President, COO*

If you look at IHS, that is what that implies, yes.

James Finnerty - *Citigroup - Analyst*

Okay. Thank you very much.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

I just had a follow-up on your export commentary for caustic. Do you believe the stronger export markets for caustic is demand driven? Or is less supply potentially coming out of China because of weaker economic conditions? And do you have an update on how much capacity could be shut down as part of the European regulation on mercury cell production?

John McIntosh - *Olin Corporation - EVP, Olin Chemicals and Ammunition*

To answer your first question, my take is it's a little bit of both. There is some weakness in the economies that would typically create caustic that would serve some of the markets where the US is able to step in and supplement. So that is part of it.

We also have seen, especially in the second quarter, third quarter of the year, some increased demand from market segments like alumina. In terms of European capacity, there have been numbers that range anywhere from 1 million tons to 1.5 million tons of plants, mercury cell plants, mercury cell capacity that is kind of on the bubble in terms of whether or not it will be recapitalized with different technology or shut down.

Some of those announcements have been made. Some of them are still pending. We do believe there will be overall reduction in European capacity. It may be a little on the -- towards the lower end of that range that had been previously published. But there are still some announcements pending in one way or the other.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, thank you.

Operator

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

Joseph Rupp - *Olin Corporation - Chairman, CEO*

Thank you for joining us today. We look forward to talking with you in early first quarter as we -- in January/February as we talk about our results for fourth quarter. Thank you.

Operator

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