

Thomson StreetEventsSM



Conference Call Transcript

OLN - Q4 2009 Olin Corporation Earnings Conference Call

Event Date/Time: Jan. 26. 2010 / 10:00AM ET



Jan. 26. 2010 / 10:00AM ET, OLN - Q4 2009 Olin Corporation Earnings Conference Call

CORPORATE PARTICIPANTS

Joseph Rupp

Olin Corporation - Chairman, President and CEO

John Fischer

Olin Corporation - CFO and VP

John McIntosh

Olin Corporation - VP and President of Chlor Alkali Products Division

CONFERENCE CALL PARTICIPANTS

Sabina Chatterjee

BB&T Capital Markets - Analyst

Edward Yang

Oppenheimer & Co. - Analyst

Christopher Butler

Sidoti & Company - Analyst

Sergey Vasnetsov

Barclays Capital - Analyst

Don Carson

UBS - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Olin fourth quarter 2009 earnings conference call. My name is Keyana and I will be your Operator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session toward the end of this conference.

(Operator Instructions)

I would like to turn the call over to Mr. Joseph Rupp, Chairman, President and Chief Executive Officer. Please proceed.

Joseph Rupp - Olin Corporation - Chairman, President and CEO

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

Last night we announced that net income in the fourth quarter of 2009 was \$21.8 million or \$0.28 per diluted share, compared to \$47.2 million or \$0.61 per diluted share in the fourth quarter of 2008. Winchester achieved the highest level of fourth quarter segment earnings in its history, reflecting the continuation of the stronger than normal demand that began in the fourth quarter of 2008. Segment earnings more than doubled in the fourth quarter of 2009 compared to the fourth quarter of 2008, driven by better military sales, which increased 22% year-over-year, and improved costs.

Chlor Alkali fourth quarter 2009 segment earnings of \$5.2 million exceeded our expectations, and reflected seasonally weak demand. ECU net backs improved, approximately \$50, or 13%, in the fourth quarter of 2009 compared to the third quarter of 2009, while chlorine and caustic soda volumes declined 8% in the fourth quarter of 2009 compared to third quarter of 2009. The fourth quarter of 2009 Chlor Alkali operating rate was



70%. Our fourth quarter 2009 earnings include \$37 million of pretax recoveries of environmental costs incurred and expensed in prior periods, and a \$1.2 million pretax gain associated with the sale of a former manufacturing facility.

Net income in 2009 was \$135.7 million or \$1.73 per diluted share, compared to \$157.7 million or \$2.07 per diluted share in 2008. Earnings in 2009 include pretax recoveries of environmental costs incurred and expensed in prior periods of \$82.1 million, a \$4.6 million pretax reduction in selling and administration expense associated with the favorable resolution of a capital tax matter in Canada, and a \$4.9 million of pretax gains associated with the sales of real estate. Sales in 2009 were \$1.53 billion, compared to \$1.76 billion in 2008.

First quarter 2010 earnings are forecast to be in the \$0.10 per diluted share range. First quarter 2010 Chlor Alkali segment earnings are expected to improve slightly compared to the fourth quarter of 2009, reflecting some anticipated improvement in demand. Earnings in the Winchester segment are expected to improve from fourth quarter levels due to seasonally stronger demand, and expected to be similar to the first quarter 2009 levels.

Now let me discuss the Chlor Alkali and Winchester segments in more detail. First, I'll begin with Chlor Alkali. Our first quarter 2009 volumes, which were in line with the fourth quarter 2008 volumes, reflect the combination of seasonally weaker volumes and a continuation of demand levels well below historic norms. From a full-year perspective, the combination of a reduced demand and lower prices caused the profitability of our Chlor Alkali business to decline from the record level of segment earnings in 2008 of \$328.3 million to \$125.4 million in 2009. Chlorine and caustic soda volumes declined 22% in 2009 compared to 2008, and full-year ECU pricing declined from approximately \$635 in 2008 to \$520 in 2009. Fourth quarter 2009 ECU netbacks were \$425, which is an improvement from the \$375 experienced in the third quarter of 2009. We believe that the ECU netbacks in our system bottomed out in the third quarter of 2009.

The full year decline in chlorine demand is evidenced by lower shipment levels to customers in major product areas. Shipments to vinyls customers declined 18% in 2009 when compared to 2008, while shipments to urethane customers declined 18% and shipments to titanium dioxide customers declined 3%. In addition to the volume declines experienced in chlorine and caustic soda, we also experienced volume declines for potassium hydroxide and hydrochloric acid. The bright spot for the business continues to be bleach sales, which increased 17% during 2009 and remained a product of emphasis in our system. During the fourth quarter of 2009 approximately 28,000 ECUs were sold in the form of bleach, and for the full year 2009 bleach volumes totaled 114,000 ECUs, up from the 97,000 ECUs sold in the form of bleach in 2008.

As I mentioned earlier, fourth quarter Chlor Alkali segment earnings of \$5.2 million dollars exceeded our expectations, due to a better than expected ECU netback of \$425. Consistent with what we have experienced throughout 2009, electricity costs per ECU produced in the fourth quarter were approximately 14% lower than the fourth quarter of 2008. This reduction reflects our ongoing efforts to optimize electricity usage by producing product at the most cost efficient facilities, and during the times of day and week that are the least costly. For the full year 2009, electricity costs per ECU produced declined approximately 15% when compared to 2008. On the other hand, we continue to experience higher freight costs. Freight costs per ECU in the fourth quarter of 2009 were 6% higher than the fourth quarter of 2008, and on a full year basis these costs increased 9% from 2008 to 2009.

As we look forward into 2010, we believe the current seasonally weak level of chlorine demand is putting some downward pressure on chlorine prices. This pressure is likely to continue until chlorine experiences its normal seasonal pick up in demand, which will occur late in the first quarter. The weak level of chlorine demand is constraining operating rates in our system. In December, a \$75 per ton caustic soda price increase was announced by all major producers. At this point, we are optimistic that most of this increase will be realized. If realized, the increase will likely impact our system in the second quarter. We continue to see differences in caustic soda demand, with high purity caustic soda in much greater demand, and experiencing premium pricing compared to diaphragm grade product.

On the demand side, we currently expect first quarter 2010 chlorine and caustic soda demand to improve over the first quarter of 2009. In December, and continuing into January, we have seen improved demand from potassium hydroxide, especially from de-icer and agriculture customers. At this time last year, our potassium hydroxide sales were negatively impacted by a disruption in salt supply that was caused by a strike at a supplier facility. As a result, we expect to see significant volume growth in 2010 compared to 2009 for this product. We expect first quarter 2010 bleach sales to exceed first quarter 2009 levels, and also expect to see significant growth in volume in the full year 2010 compared to 2009. A portion of this growth reflects our success in delivering bleach by rail car, which is expanding our geographic reach. During our third quarter earnings call we announced that we had initiated capital projects totaling approximately \$10 million at three of our manufacturing locations, to expand our capacity to manufacture and ship bleach. These projects are ongoing and will be completed in 2010.

Our St. Gabriel, Louisiana facility has been running successfully, and is expected to operate at approximately 80%. The conversion and expansion of this facility, which went through the start-up process in the fourth quarter of 2009, utilizes membrane technology that we anticipate will reduce the operating costs of the facility by approximately \$30 million per year, due to more efficient electricity usage and the installation of



a brine supply system. In response to this capacity being added to our system, we have reduced diaphragm operating rates at several of our locations. This capacity utilization decision allows us to maximize the amount of high period caustic produced, consistent with the current tightness for membrane caustic soda that we see in the marketplace.

In prior quarters, we have discussed legislation that had been introduced in both the United States House of Representatives and the United States Senate which, if enacted, would ban the production of chlor alkali products using mercury cell technology two years from the date it was enacted into law. During October, the House Committee on Energy and Commerce passed a bill that would require chlor alkali producers using mercury cell technology to make a decision by June 30, 2012 as to whether to shut down or convert their facilities. If the decision is to convert, the mercury cell plants would be required to be converted by June 30, 2015. If the decision is not to convert, the plants would be required to be shut down by June 30, 2013.

For this bill to become law, it must be passed by the full House of Representatives and the full Senate. No additional action has been taken on this bill since October in the House of Representatives, and no action at all has been taken in the Senate. Olin currently operates two facilities that utilize mercury cell technology, totaling approximately 350,000 ECUs or 18% of our capacity. Olin continues to operate these facilities in full compliance with all rules and regulations. It is not yet possible to determine what impact these bills will have on Olin, or the chlor alkali industry.

Finally, on January 15th we declared force majeure until further notice for all product shipments manufactured at our McIntosh, Alabama facility. This force majeure declaration did not include the SunBelt operation. The force majeure was declared due to an unexpected equipment failure. McIntosh is our largest facility, and while we currently have sufficient chlorine and caustic soda capacity elsewhere in our system, our ability to meet customer requirements on a timely basis has been constrained by transportation logistics. The McIntosh facility is currently being brought back online, and we expect to lift the force majeure in the near future.

Now turning to Winchester. Winchester experienced the highest level of fourth quarter sales and earnings in its history, and completed a record year that exceeded all expectations. Fourth quarter 2009 sales of \$126 million were 4% higher than fourth quarter 2008 sales, and reflect continued strength in commercial sales and higher military sales. For the full year 2009, Winchester sales were \$567.7 million, a 16% increase over 2008 sales. During 2009, commercial sales increased 23% compared to 2008, while military sales increased 26%. 2009 law enforcement sales declined slightly from 2008 levels, and industrial sales declined 34%. Winchester's industrial products are sold predominantly to the construction industry. On a volume basis, Winchester's 2009 unit sales increased 14%, which was driven by the high level of commercial sales.

In the fourth quarter of 2009, Winchester earned \$9.5 million compared to \$3.3 million in the fourth quarter of 2008. Historically, the fourth quarter is a seasonally weak quarter for Winchester, with earnings typically in the break even range. Winchester's record 2009 earnings of \$68.6 million more than doubled the prior record year earnings of \$32.6 million which was achieved in 2008. The combination of higher sales volumes and lower commodity and material costs were responsible for the record segment earnings.

During 2009, the average prices of the three major commodity metals used by Winchester all declined from 2008 levels. The price of copper declined 12%, the price of zinc declined 36%, and the price of lead declined 24%. As a reminder, Winchester uses approximately three times as much lead as copper, and uses more copper than zinc.

Winchester's commercial backlog at December 31, 2009 was \$117 million, which is three times as large as the commercial backlog at the end of 2008. The contract backlog, which includes the military and law enforcement business, was \$124 million at the end of 2009. The majority of the military contracts are funded well into 2011. Based on these backlog levels, Winchester is forecast to have a strong first quarter of 2010. First quarter 2010 Winchester earnings are currently expected to improve compared to fourth quarter, and to be similar to the first quarter of 2009. A challenge for Winchester as the business moves into 2010 revolves around the low inventory levels. Due to the high level of demand, Winchester's inventories are approximately 20% lower at the beginning of 2010 compared to the beginning of 2009.

As we look beyond the first quarter of 2010, we continue to see product areas where significant shortages remain, and we see product areas in which supply has improved. The ammunition areas where we continue to see product shortages are rimfire, categories of handgun ammunition and hunting rifle ammunition. In summary, we believe there's an industry-wide lack of inventory in the system. Based on these observations, we have forecast that stronger than normal levels of demand will continue past the first quarter of 2010.

Finally, in spite of the most challenging economic climate many of us have seen, I believe 2009 was a successful year for Olin. In addition to the record performance from our Winchester business, we were able to significantly improve our financial strength and liquidity. Our cash balance increased by over \$200 million during 2009, including an increase in excess of \$80 million during the fourth quarter. This level of liquidity provides us with flexibility, and raises the obvious question of what do we intend to do with the money. Our first priority is to grow the business, and we remain focused on opportunities in bleach space. Internally we have established a target to grow our bleach volumes by 30% in 2010



compared to 2009. We are also actively developing a low salt, high strength bleach that will double the concentration of the bleach we manufacture, which would significantly reduce transportation costs.

During 2010 we expect to initiate a \$15 million to \$20 million capital project to construct a dedicated low salt, high strength bleach facility. Additional investments in low salt, high strength bleach could follow. In addition, we remain interested in acquisitions that could further enhance our bleach business, and therefore our entire Chlor Alkali business.

I will now turn the call over to our Chief Financial Officer, John Fischer, who will review several financial items with you.

John Fischer - Olin Corporation - CFO and VP

Thank you, Joe.

First, I would like to discuss a few items on the income statement. Selling and administration expenses decreased \$4 million in the fourth quarter of 2009 compared to the fourth quarter of 2008. Legal and legal-related settlement costs decreased \$1.5 million in the fourth quarter of 2009 compared to the fourth quarter of 2008, due to lower activity levels resulting from the conclusion of the environmental recovery activities. Legal and legal-related settlement costs relate to both the recovery actions for environmental costs incurred and expensed in prior periods, legal costs for other environmental sites, both past manufacturing operations and former waste disposal sites. Fourth quarter 2009 bad debt expense decreased by \$1.3 million compared to fourth quarter of 2008, and reflects recoveries from prior bankruptcy events. Finally, fourth quarter 2009 incentive compensation costs declined approximately \$1 million, reflecting the lower level of corporation and Chlor Alkali earnings.

Fourth quarter 2009 credits to income for environmental, investigatory and remedial activities were \$31.2 million, which includes the \$37 million of pretax recoveries from third parties for costs incurred and expensed in prior periods. Without these recoveries, charges to income for environmental, investigatory and remedial activities were \$5.8 million in the fourth quarter of 2009 compared to \$6.5 million in the fourth quarter of 2008. These charges relate primarily to remedial and investigatory activities associated with former waste disposal sites and past manufacturing operations. As we look beyond 2009, we do not believe that there will be meaningful additional recoveries of environmental costs previously incurred and expensed in prior periods. Without giving consideration to the \$82.1 million of full year 2009 environmental recoveries, full year 2009 charges to income for environmental, investigatory and remedial activities were \$24.1 million compared to \$27.7 million in 2008. We currently expect charges to income for environmental, investigatory and remedial activities to be 10% to 20% higher in 2010 than the 2009 level.

On a total company basis, defined benefit pension plan income was \$4.4 million during the fourth quarter of 2009, compared to \$300,000 of expense in the fourth quarter of 2008. Fourth quarter 2008 defined benefit pension plan expense included a \$3.3 million curtailment charge associated with the transition of a portion of the Winchester hourly work force from a defined benefit pension plan to a defined contribution pension plan. Based on the December 31, 2009 funding status, we will not be required to make any cash contributions to our domestic defined pension plan in 2010, and we also believe it is unlikely we will be required to make any contributions in 2011. We do have a small Canadian defined benefit pension plan to which we made small contributions in 2009, and will be required to make small contributions in 2010.

Defined contribution pension expense in the fourth quarter of 2009 was \$2.6 million, compared to \$2.5 million in the fourth quarter of 2008. As a reminder, our defined benefit pension plan is frozen to all new entrants, all salaried, all non-union hourly, and most union employees. As a result, the majority of our active employees participate in the defined contribution pension plan.

The tax rate during the fourth quarter was 37.4%, and the tax rate for the full year 2009 was 35.4%. The full year 2009 rate contained approximately \$6 million of favorable adjustments, which reduced the rate below statutory levels. These favorable adjustments related primarily to the finalization of the 2008 income taxes. In 2010, the tax rate is forecast to be in the 37% to 38% range before discrete items. During periods of low earnings, our effective tax rate can be significantly impacted by adjustments for permanent items, settlements and credits.

Now turning to the balance sheet. Cash and cash equivalents at December 31st, 2009 were \$458.5 million, compared to \$246.5 million at December 31st, 2008, and \$376.6 million at September 30th, 2009. The increase in the cash balance from September 30th, 2009 reflects the receipt of the majority of the proceeds from the third and fourth quarter recoveries of environmental costs incurred and expensed in prior periods, and an \$8.7 million reduction in working capital. Cash flow during 2009 benefited from a \$57.9 million reduction in cash tax payments. During 2009, Olin reduced its cash tax payments by approximately \$40 million as a result of accelerated depreciation allowances included in the 2009 American Recovery and Investment Act. Our \$172 million St. Gabriel, Louisiana conversion and expansion project was eligible for this accelerated depreciation tax deduction.



Capital spending during the fourth quarter was \$15.6 million, and was \$137.9 million for the year. Capital spending in 2008, as a point of reference, was \$180.3 million. Approximately 50% of the 2009 and 2008 capital spending relates in the St. Gabriel conversion and expansion project. The full year 2009 capital spending was below our most recent forecast of \$150 million, and reflects a higher level of spending being carried over into 2010. Fourth quarter and full year 2009 depreciation expense was \$21.2 million and \$71.7 million respectively. We are currently forecasting 2010 capital spending to be in the \$70 million to \$80 million range, and depreciation expense in 2010 to be approximately \$90 million. The increased depreciation reflects the capitalization of the St. Gabriel conversion and expansion project in late 2009.

On January 22nd, 2010, Olin's Board of Directors declared a dividend of \$0.20 on each share of Olin common stock. The dividend is payable on March 10th, 2010 to shareholders of record at the close of business on February 10th, 2010. This is the 333rd 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 Factors section of our most recent Form 10-K, and in our fourth quarter earnings release. A copy of today's transcript will be available this afternoon on our website, www.olin.com, in the Investors section under Calendar of Events. The earnings press release and other financial data and information are available under Press Releases. Operator, we are now ready to take questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question comes from the line of Sabina Chatterjee of BB&T Capital Markets. You may proceed.

Sabina Chatterjee - BB&T Capital Markets - Analyst

Good morning.

Joseph Rupp - Olin Corporation - Chairman, President and CEO

Good morning.

Sabina Chatterjee - BB&T Capital Markets - Analyst

In your guidance for Q1, what level of ECU pricing are you factoring in? Considering the \$75 per ton increase is probably unlikely to materialize until the second quarter?

John McIntosh - Olin Corporation - VP and President of Chlor Alkali Products Division

We've looked at pricing -- when you look historically at pricing, our chlorine prices troughed in the second quarter of 2009, caustic prices troughed in the fourth quarter, which is typical with caustic lagging, and our ECU troughed on a combined basis in the third quarter. We did see improvement, as we said in our remarks, in pricing for the fourth quarter, and we expect as this caustic price increase becomes fully accepted in the marketplace that we are going to see continued improvement throughout the first half, but we don't expect to see a significant improvement in the first quarter.

Sabina Chatterjee - BB&T Capital Markets - Analyst



Jan. 26. 2010 / 10:00AM ET, OLN - Q4 2009 Olin Corporation Earnings Conference Call

Okay. But sequentially, probably up modestly from Q4 levels? Is that fair?

John McIntosh - Olin Corporation - VP and President of Chlor Alkali Products Division

Well, you know, I don't know what you mean by "modestly." We just don't expect to see significant improvement in pricing, you know, from the fourth quarter to the first quarter. That's really all we can comment on.

Sabina Chatterjee - BB&T Capital Markets - Analyst

Okay. Then just with respect to cash, you ended the quarter at record levels, and Joe briefly mentioned acquisitions to enhance the bleach business. Can you just comment on how the pipeline is looking, both in terms of the supply and valuation? And what sort of time line should we be constructing in our own minds?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

What I would tell you is that we think there are some opportunities out there. Valuations still are an issue, but we think that there are opportunities, Sabina, and we'd be looking to try to accomplish something here in 2010.

Sabina Chatterjee - BB&T Capital Markets - Analyst

Okay. Great. All right. Thanks, guys.

Operator

Our next question comes from the line of Edward Yang of Oppenheimer. You may proceed.

Edward Yang - Oppenheimer & Co. - Analyst

Hi, guys. Great quarter. On the Chlor Alkali side, what is the latest status on the \$75 caustic soda price increase? You mentioned you expect to get all of it, but it has been a bit slow in being implemented. And we have also heard that a lot of buyers have already accepted half of that. Has that been the case for you?

John McIntosh - Olin Corporation - VP and President of Chlor Alkali Products Division

We -- there are -- you know, several players in the industry have taken a little different position on this \$75 price increase. Most everyone else, with the exception of Olin, has really segmented it into parts, with half of it being effective or something close to half of it, you know, at January 1, with the balance of it to be effective February 1. We took a more aggressive approach, and we have been pushing the entire price increase from January 1 in every situation where we could, or where we weren't faced with a competitive situation. So as we continue to -- to move, we hope that our success, you know, puts us in a position where we will see the full impact of the price increase in the second quarter for us.

Edward Yang - Oppenheimer & Co. - Analyst

Okay, John. And does -- the \$0.10 first quarter EPS guidance, does that include any negative impacts from the force majeure in McIntosh? I would assume that there's some negative absorption that could potentially impact the first quarter?

John McIntosh - Olin Corporation - VP and President of Chlor Alkali Products Division

We don't expect anything of any significance. You know, any impact will be minimum -- minimal, sorry.



Jan. 26. 2010 / 10:00AM ET, OLN - Q4 2009 Olin Corporation Earnings Conference Call

Edward Yang - Oppenheimer & Co. - Analyst

Okay. And on the balance sheet again, sort of an embarrassment of riches at this point, you know, overfunded pension, net cash \$60 million; will there be any working capital issues that could affect that net cash balance, fourth quarter to first quarter?

John Fischer - Olin Corporation - CFO and VP

I think -- one thing we always talk about, Edward, is that there is a fairly strong seasonal aspect to both of our businesses, and it is not unusual to see working capital growth from the end of the year up until the middle of the third quarter, that -- with Winchester running at the volumes they're running at the pricing levels they are running, that could be as high as \$100 million. And as you know, that's something that we always think about when we think about our cash balances. So the answer is yes, it could be quite significant as we work through the next two and-a-half quarters.

Edward Yang - Oppenheimer & Co. - Analyst

Okay. You mentioned Winchester, and Joe said that the major challenge at this point is tight inventory, and inventories are down 20% year-over-year. Does that mean that you expect a new round of price increases to be announced? I know on the volume side you are pretty much constrained.

Joseph Rupp - Olin Corporation - Chairman, President and CEO

Edward, we announced price increases, and basically those are effective April 1, and they have been followed by everybody in the industry.

Edward Yang - Oppenheimer & Co. - Analyst

And what was the -- the percentage price increase, Joe?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

It is 2% and 5%, depending upon product lines.

Edward Yang - Oppenheimer & Co. - Analyst

Okay. Thank you very much.

Joseph Rupp - Olin Corporation - Chairman, President and CEO

You're welcome.

Operator

Our next question comes from the line of Christopher Butler of Sidoti & Company. You may proceed.

Christopher Butler - Sidoti & Company - Analyst

Good morning, guys.

Joseph Rupp - Olin Corporation - Chairman, President and CEO



Jan. 26. 2010 / 10:00AM ET, OLN - Q4 2009 Olin Corporation Earnings Conference Call

Good morning.

Christopher Butler - Sidoti & Company - Analyst

I was hoping you would be able to touch on the growth that you've seen in bleach. You know, you're up 17% you said. I mean, are we seeing a strong demand for bleach marketwide due to concerns of things like swine flu, or is this a situation where you guys are grabbing share in the marketplace?

John McIntosh - Olin Corporation - VP and President of Chlor Alkali Products Division

We did see in some isolated cases where certain customers had some increased demand associated with disinfection requirements associated with the swine flu, but that wasn't really something that moved our market significantly. What we have seen is that customers are continuing to come to the realization that opportunities to buy bleach carries with it, you know, convenience and certain other attributes -- product attributes that make it, you know, a positive comparison with some of the other alternatives for water treatment and disinfection. So we are taking advantage of that where possible, and utilizing our rail delivery model as the vehicle to expand the reach beyond -- you know, beyond where we currently -- or where historically we have reached by making truck shipments from our producing locations.

Christopher Butler - Sidoti & Company - Analyst

And shifting gears to the Winchester segment a bit, you had mentioned that military sales were strong. Could you, you know, give us some color on demand, looking out a little bit with, you know, some concerns that the -- that the Obama effect might wane here over the next couple of years, but military action doesn't seem to be doing that. You know, what are you thinking as far as demand for Winchester?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

Chris, I think from a military perspective, as we have mentioned, we actually have contracts from a military perspective that are going to take us out to the 2011 time period. But the other aspect that I think is going on in addition to that is the fact that we have uncertainty here, and the regulatory threats and the economic uncertainty; and I underscore the economic uncertainty, we believe, is continuing to drive ammunition demand.

Christopher Butler - Sidoti & Company - Analyst

On the raw material front, you had mentioned that they were a bit of a tailwind in 2009. Are you looking at those to be a bit of a headwind as we move into 2010 on Winchester?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

Not a huge headwind, but I would point out that commodity prices have gone up compared to 2009.

Christopher Butler - Sidoti & Company - Analyst

I appreciate your time.

Joseph Rupp - Olin Corporation - Chairman, President and CEO

Thank you.

Operator



Jan. 26. 2010 / 10:00AM ET, OLN - Q4 2009 Olin Corporation Earnings Conference Call

Our next question comes from the line of Sergey Vasnetsov of Barclays Capital. You may proceed.

Sergey Vasnetsov - Barclays Capital - Analyst

Good morning. My question is on the mercury legislation, the U.S. Congress has a pretty busy agenda nowadays, and also in Europe when such a law is proposed it has gotten delayed in its implementation by at least five to seven years. Based on those two factors, would it be reasonable for us to expect that the U.S. mercury legislation impact on the U.S. chlor alkali industry, in general, would be past 2015 in practical terms?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

That's -- past 2015?

Sergey Vasnetsov - Barclays Capital - Analyst

Yes.

Joseph Rupp - Olin Corporation - Chairman, President and CEO

I don't know if anything is certain with what's going on in Washington. But, you know, our thinking is that it is 2020 in Europe, and we believe that what we have talked about today hopefully is -- it is that or beyond. From an industry perspective, we would like to see the conversion pushed beyond.

Sergey Vasnetsov - Barclays Capital - Analyst

Okay. Thank you. And so on the U.S. chlor alkali capacity, do you have some expectations of plants being shut down over the next few years, maybe not specifically about a company, but what is your overall U.S. market view?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

Really, Sergey, just speaking from an Olin perspective, we are evaluating the seasonal capacity needs that we need to be able to expand our bleach business, and the reality is that the mercury technology is something that is uncertain. We can't really predict what will happen there, so we have to take that into mind. So the clarity for us from a capacity perspective is something that we are -- we continue to try to study. From an industry perspective, we believe that historically the industry has -- has tried to put supply and demand in alignment, and as we have talked about in the past, in the last downturn 12% of industry capacity was shut down, and we still think that there's that opportunity for capacity to be shut down from an industry perspective.

Sergey Vasnetsov - Barclays Capital - Analyst

Would you care to quantify how much capacity might be shut down by the industry next year?

John McIntosh - Olin Corporation - VP and President of Chlor Alkali Products Division

No.

Sergey Vasnetsov - Barclays Capital - Analyst

Okay. Thanks.



Jan. 26. 2010 / 10:00AM ET, OLN - Q4 2009 Olin Corporation Earnings Conference Call

Operator

Our next question comes from the line of Don Carson of UBS. You may proceed.

Don Carson - UBS - Analyst

Yes, thank you. Joe, I have a follow-up on Winchester. How big is the military component there, or what percentage of sales did that represent in 2009? And just trying to get a sense of whether -- I know in the past you have talked about as people rush to get ammunition ahead of gun control or perceived gun control threats, that that's historically been about six-quarter long phenomenon. I guess we are four quarters into that now. You think 2009 was the peak for Winchester, or does the military tailwind and some of your new product developments give you continued momentum in 2010?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

Don, I think two points. One is that we consider military and law enforcement in one category, and that's really in the 25% range of our revenue. And as we've pointed out the past, we used to run in the 10% to 15% range; we have pushed it up in the 25% to 30% range. What we have said before is correct, is that these surges, you know, sometimes last six quarters. I think the -- the difference with this surge is in addition to regulatory uncertainty, we have economic uncertainty. It is our sense that economic uncertainty is continuing to drive ammunition demand as we speak.

Don Carson - UBS - Analyst

By that you mean just the need to have an extra deer in the freezer type of thing?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

Or to be able to protect yourself personally.

Don Carson - UBS - Analyst

Okay, good point. So would you still regard '09 as not the peak? That '10 could be as good as '09 from a profitability standpoint?

Joseph Rupp - Olin Corporation - Chairman, President and CEO

I think it is hard to call it, but what I would say is that I think '10 will be a very good year.

Don Carson - UBS - Analyst

Okay. And then switching over to Chlor Alkali, John McIntosh, on the -- you talked about weakness in chlorine, do you think chlorine could come down more than what you might realize in caustic, and there is potential for lower ECU realizations in Q1?

And then two follow-ups to that, are you starting to see a little more pressure on electrical power? I know you have done some things to optimize your consumption, but what about the underlying power rates? And finally, I'm surprised that your operating rate was so low in the quarter. You were 70% versus an industry rate that was closer to 80%; what in particular was driving that?

John McIntosh - Olin Corporation - VP and President of Chlor Alkali Products Division

Let me try to catch them in the same order that you asked them. I think the pace of recovery in demand for chlorine, or lack of, is going to play into how much price pressure there is on the chlorine molecule moving forward. We just don't see any significant change in the status quo, at



Jan. 26. 2010 / 10:00AM ET, OLN - Q4 2009 Olin Corporation Earnings Conference Call

least for the first quarter, that tells us we should expect a significant change in chlorine pricing. There's going to continue to be pressure on chlorine pricing, and we may see some slight erosion, but we do have headwinds on the other part of the ECU -- or tailwinds on the other part of the ECU, and so we expect not to see any kind of significant change first quarter, and as we push the caustic price increase, then we expect to see favorable impact from that in the second quarter.

In terms of electricity power rates, we really haven't seen a lot of change in underlying rates. As fuel prices continue to be low, whether you are talking about coal or natural gas, we have not seen pressure from the energy costs part of electricity rates, and we have just not seen, you know, any -- any pressure in the electricity base rates, too. Although we expect, depending upon the kind of regulation and cap and trade legislation that may ultimately come from Washington, that -- longer term that there will be some impact to electricity and power rates, just not in the short term.

Operating rates for Olin in the quarter were lower than the industry. What we -- what we have seen historically is that in a low demand environment, and that's surely where we find ourselves in the fourth quarter and in a lot of 2009, the -- the non-integrated producer like Olin is more impacted from an operating rate standpoint than some of the producers that have some degree up to total integration of chlorine use in their system. So we are not surprised at that, and we understand that phenomenon, and especially in the [shoulder] quarters where we don't have seasonal demand, we are going to be, you know, disadvantaged in this kind of environment.

Don Carson - UBS - Analyst

Thank you.

Operator

With no further questions in the queue, I would like to turn the call back over to Mr. Joseph Rupp for closing remarks. You may proceed.

Joseph Rupp - Olin Corporation - Chairman, President and CEO

We would like to thank you for joining us this morning, and we hope you will join us in April when we announce the results of our first quarter of 2010. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect and have a great day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2010 Thomson Reuters. All Rights Reserved.



