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OLN - Q4 2013 Olin Earnings Conference Call

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OVERVIEW:

OLN reported 4Q13 sales of $562m and net income of $24.7m and $0.31 per diluted share. Expects 1Q14 EPS to be $0.30-0.35.

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PRESENTATION

Operator

Good day and welcome to the Olin Corporation fourth quarter 2013 earnings conference call. All participants will be in listen-only mode.

(Operator Instructions)

I would now like to turn the conference over to Mr. Joseph Rupp, Chairman, President and CEO of the Olin Corporation. Mr. Rupp, the floor is yours, sir.

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

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

Last night, we announced that net income in the fourth quarter of 2013 was $24.7 million, or $0.31 per diluted share, which compares to $34.6 million, or $0.43 per diluted share, in the fourth quarter of 2012. Sales in the fourth quarter of 2013 were $562 million compared to $587.6 million in the fourth quarter of 2012. During 2013, Olin achieved $424.6 million of adjusted EBITDA, which is the highest in the history of the company. The record adjusted EBITDA was driven by record results in the Winchester business, which more than offset weaker year-over-year results in our Chlor Alkali business. In addition, during 2013, we increased our cash position by $143 million and repurchased approximately 1.5 million shares of our stock.

Fourth quarter 2013 results in both Chlor Alkali and Winchester exceeded our expectations, as better than expected demand resulted in higher product shipments. The fourth quarter 2013 Chlor Alkali operating rate was 81%, which compares favorably to the fourth quarter 2012 operating rate of 76%. The favorable Chlor Alkali and Winchester results were partially offset by higher than expected stock-based compensation costs, reflecting a $4.6 million unfavorable mark-to-market adjustment and higher legal and legal-related settlement costs.

The fourth quarter 2013 results included $6.5 million pretax gain associated with the sale of a joint venture interest, $4 million of favorable tax adjustments, and $1.4 million of pretax restructuring charges. As Olin enters 2014, we believe we can generate an adjusted EBITDA in the $375 million to $425 million range. This range reflects the view consistent with prior surges that the record level of demand currently being experienced in the Winchester business will begin to moderate during the second half of the year.

In the first quarter of 2014, earnings per share are forecast to be in the $0.30 to $0.35 range. Winchester first quarter 2014 segment earnings are forecast to improve when compared to the first quarter of 2013, due to improved pricing and lower costs. First quarter 2014 Chlor Alkali segment earnings are forecast to decline compared to the first quarter of 2013, due to lower ECU netbacks, partially offset by improved volumes and lower costs.

I'll discuss the businesses in more detail, beginning with cChlor Alkali. The Olin operating rate in the fourth quarter of 2013 was 81% and for the full year of 2013, the business operated at 84%. Of note, the November and December operating rates, which exceeded our expectations, were higher than both the September and October rates. We've seen continued strength in chlorine demand as we've moved through January and as a result, we've placed chlorine in 100% order control.

During January, we have had requests for chlorine deliveries that we have been unable to fulfill. The full-year 2013 operating rate was consistent with the rates achieved in 2010 through 2012, based on our current capacity. Fourth quarter 2013 shipments of chlorine and caustic soda increased 2.5% compared to the fourth quarter of 2012 and full year 2013 shipments of chlorine and caustic soda were similar to 2012 levels.

During the fourth quarter, chlorine shipments to vinyl customers increased approximately 46% compared to 2012 fourth quarter levels, while chlorine shipments to urethane customers declined approximately 12% and chlorine shipments to titanium dioxide customers were unchanged. During the fourth quarter of 2013, shipments of bleach increased approximately 6% when compared to the fourth quarter of 2012 levels and represents the 24th consecutive quarterly year-over-year increases in bleach shipments.

For the full year 2013, bleach shipments increased approximately 8% when compared to 2012 and these shipments represented approximately 10% of our total chlor alkali capacity. We expect bleach shipments to continue to increase in 2014.

Fourth quarter 2013 shipments of hydrochloric acid increased 15% compared to the fourth quarter of 2012, but for the full year 2013, hydrochloric acid shipments declined approximately 2% when compared to full year 2012 levels. Hydrochloric acid prices declined 31% in the fourth quarter of 2013 and 33% in the full year 2013 when compared to 2012. These price declines reduced fourth quarter 2013 Chlor Alkali segment earnings by approximately $4 million when compared to fourth quarter of 2012 and reduced full year 2013 Chlor Alkali segment earnings by approximately $19 million compared to 2012.

The hydrochloric acid prices experienced in 2012 reflected product shortages that occurred early in the year and we believe the 2013 results are more representative of ongoing results. During 2013, in spite of the decline in prices, hydrochloric acid sales continued to command a meaningful price premium when compared to chlorine. During 2013, the volume of hydrochloric acid shipments represented approximately 7% of our total chlorine capacity and we expect these shipments to grow in 2014.

The fourth quarter 2013 operating rate was negatively impacted by planned maintenance outages at the McIntosh, Alabama facility, including our SunBelt plant, and also at the Becancour, Canada facility.

During 2013, spending on planned maintenance outages increased approximately $9 million compared to 2012 levels. As we look forward to 2014, we expect spending on planned maintenance outages to decline and to be closer to the 2012 spending level. In addition to the higher planned maintenance outage spending in 2013 compared to 2012, the Chlor Alkali business also experienced higher electricity costs in 2013 when compared to 2012 and higher depreciation expense in 2013 versus 2012.

Electricity costs per ECU produced increased approximately 6% in 2013 compared to 2012 and was primarily driven as a result of higher natural gas costs. These increases negatively impacted the 2013 Chlor Alkali segment earnings by approximately $12 million. Depreciation expenses in 2013 increased $13.3 million compared to 2012 and that was the result of the completing and bringing into service our new membrane cell chlor alkali plant in Charleston, Tennessee and our three new HyPure bleach plants.

ECU netbacks declined in the fourth quarter of 2013 compared to the third quarter of 2013 and the fourth quarter of 2012. These declines reflect lower prices for both chlorine and caustic soda. The fourth quarter 2013 ECU netback was approximately $525, which compares to net backs of approximately $570 in the third quarter of 2013, and approximately $580 in the fourth quarter of 2012.

Chlor Alkali fourth quarter 2013 segment earnings were $30.7 million compared to fourth quarter 2012 segment earnings of $54.3 million. The year-over-year decline primarily reflects lower ECU netbacks and lower hydrochloric acid pricing. The fourth quarter 2013 Chlor Alkali segment earnings equate to quarterly segment EBITDA of $56.4 million.

Full year 2013 segment earnings were $203.8 million compared to 2012 full year segment earnings of $263.2 million. The year-over-year decline primarily reflects lower ECU netbacks, lower hydrochloric acid pricing, higher electricity costs, and higher maintenance costs and higher depreciation expenses. The full year 2013 Chlor Alkali segment earnings equate to full year segment EBITDA of $305.9 million.

First quarter 2014 Chlor Alkali segment earnings are forecast to improve compared to the fourth quarter of 2013, but decline compared to the first quarter of 2013 levels. First quarter 2014 chlorine and caustic soda volumes are forecast to increase compared to the first quarter 2013 levels. The forecasted year-over-year decline in segment earnings reflects lower ECU netbacks.

At this point, we do not believe the caustic soda price increase that was announced in the market during the fourth quarter will be successful. We also do not expect to see additional declines in caustic soda prices, which are supported by spot prices that have been stable. We also believe the industry may be entering into a more typical chlor alkali cycle, led by increases in chlorine demand and chlorine prices.

Since 2002, Olin has experienced flat demand for chlorine and caustic soda and our operating rates for the years 2010 through 2013 have ranged between 83% and 85%, without any breakout in demand. As I said earlier, that may be changing. Due to the higher than expected current demand, we have recently placed our chlorine customers on order control and announced a $50 per ton chlorine price increase.

Within Olin's system, depending on bleach and hydrochloric acid demand, we believe it's possible that second and third quarter operating rates could be near our capacity. As a reminder, seasonal strength in the sale of bleach during the second and third quarter of the year can add between 4% and 6% to the quarterly operating rate. We believe that 2014 may be a transition year to the start of a new cycle, with caustic soda prices below 2011 to 2012 levels and chlorine prices improving.

I'm going to turn now to Chemical Distribution. During the fourth quarter of 2013, the Chemical Distribution segment had breakeven segment earnings. This compares unfavorably to fourth quarter 2012 segment earnings of $2.6 million. Fourth quarter 2013 segment EBITDA was $3.9 million compared to $6.4 million in the fourth quarter of 2012.

Fourth quarter 2013 caustic soda volumes declined by 29% compared to the fourth quarter of 2012. Fourth quarter 2013 bleach shipments increased slightly when compared to fourth quarter 2012. During the fourth quarter of 2013, the business sold quantities of Olin-produced hydrochloric acid and potassium hydroxide.

Year-over-year, fourth quarter 2013 caustic soda margins declined, but margins improved as the business moved through the quarter. Consistent with the view of Chlor Alkali business, we do not expect the caustic soda price increase that was announced during the fourth quarter to be successful. We expect first quarter 2014 Chemical Distribution sales and earnings to improve compared to fourth quarter of 2013.

Within the Chemical Distribution business, both the fourth and first quarters are seasonally weaker for caustic soda and for bleach sales. In 2013, we were disappointed with the financial performance of the Chemical Distribution business. We experienced aggressive pricing in the caustic soda market from large global distributors and observed some realignment of caustic soda producer and caustic soda distributor relationships.

We also experienced delays in the startup of our capabilities to sell Olin-produced hydrochloric acid and potassium hydroxide. Some of these delays were regulatory in nature. In 2014, significant synergies are expected to be realized from selling Olin-produced bleach, hydrochloric acid, and potassium hydroxide, as well as the continued integration of the Chemical Distribution and Chlor Alkali transportation and logistics capabilities. Throughout 2013, we made progress in these areas.

And now Winchester: fourth quarter 2013 commercial demand continued at levels experienced throughout 2013 and fourth quarter 2013 commercial sales increased 36% when compared to the fourth quarter of 2012. Fourth quarter 2013 commercial volumes increased across all product categories. The increase in the fourth quarter 2013 commercial sales were partially offset by lower law enforcement and military sales.

The year-over-year reduction in military sales reflects the anticipated completion of two contracts earlier in 2013. Total fourth quarter 2013 Winchester sales increased 15% compared to the fourth quarter 2012. For the full year 2013, commercial sales increased 40.5% compared to 2012 and full year law enforcement sales increased 21% compared to 2012. These increases were partially offset by a 21% decline in full year military sales.

These changes resulted in a full year Winchester sales increase of 26% to a record level of $777.6 million. The improved year-over-year commercial volumes contributed to the significant improvement in fourth quarter 2013 Winchester segment earnings when compared to the fourth quarter of 2012. Fourth quarter 2013 Winchester segment income was $34.1 million compared to $16.5 million earned in the fourth quarter of 2012.

The full year 2013 Winchester segment income of $143.2 million was a record and was more than double the previous record level of annual earnings achieved in 2009. Full-year 2013 Winchester EBITDA was $158.1 million. In addition to the increased sales volumes in 2013 when compared to 2012, the division also benefited from lower commodity metal costs, lower manufacturing costs, and improved product pricing in 2013.

During 2013, the average purchase cost of copper declined by approximately 6% and the average purchase price of zinc declined 8%. These declines more than offset an approximately 3% increase in the average purchase price of lead. The favorable impact of the declines in the prices of copper and zinc was amplified by an approximately 41% increase in the volume of copper purchased and approximately 52% increase in the volume of zinc purchase. The volume of lead purchased in 2013 increased approximately 25% compared to 2012.

During the fourth quarter 2013, the cost savings realized from the ongoing centerfire ammunition relocation project were approximately $4.9 million that compares to $1.6 million in the fourth quarter of 2012. For the full year of 2013, the full year cost savings from the relocation project were $17 million, which represents a $22 million year-over-year improvement compared to 2012. During 2013, the relocation of all pistol manufacturing operations was completed and the relocation of rifle manufacturing equipment was initiated.

During 2014, we forecast the annual cost savings realized from the centerfire ammunition relocation project to increase to $24 to $26 million range. We continue to expect the entire relocation program to be completed by late 2015 or early 2016. We also continue to believe that the annual cost savings that can be achieved at the completion of the project is in the $35 to $40 million range.

During the fourth quarter, the commercial backlog increased by 13% compared to the level at the end of the third quarter. The December 31 commercial backlog of $497 million is the highest level since the end of June and has increased in excess of $500 million during January. By comparison, the backlog on December 31, 2012 was $138 million.

Based on this level of backlog, we now believe the level of commercial demand at Winchester business experienced in 2013 will continue at least through the second quarter of 2014. Based on the level of demand, the current backlog, and continuing improving cost position, we also believe that the first quarter 2014 Winchester segment income should exceed the first quarter 2013 levels.

As we look at the Winchester business going forward, we continue to believe that the significant increase in gun ownership that has occurred over the last five years, as well as the increase of the number of people who have become regular target shooters, will result in commercial ammunition demand in excess of historic levels. Based on survey data, as many as 8 million new target shooters and therefore, ammunition consumers, have been created in the past five years.

The combination of this improved demand profile and the realization of $35 to $40 million of cost savings from the centerfire relocation project continues to make us believe that the Winchester business can, under normal conditions, demand conditions, generate an annual EBITDA in the $100 to $115 million range. I believe that the 2013 cash flow and adjusted EBITDA performance demonstrated the long-term potential that Olin has. Over the past several years, we have made significant investments in expanding, diversifying, and improving both the chemical and ammunition businesses. In 2013, the benefits of those investments began to be realized.

In 2014, we have opportunities to further expand the sales of value-added products in Chlor Alkali to make improvements and realize additional synergies from the Chemical Distribution business and to capture further cost savings in the Winchester business. We continue to look for ways to deploy cash flow to increase shareholder value and we will consider accretive acquisitions and investments, share repurchases, and our dividend policy. As I said earlier, during 2013, we repurchased approximately 1.5 million shares and we intend to be a consistent, steady, and opportunistic buyer of our shares over time.

I'd now like to turn the call over to our Chief Financial Officer, John Fischer. John will review several financial matters with you. John?

John Fischer - *Olin Corporation - SVP and CFO*

Thank you, Joe. First, I'd like to discuss the balance sheet and the fourth quarter 2013 cash flow. Cash and cash equivalents at December 31, 2013, including the restricted cash associated with the Go Zone financing that are classified as long-term assets on the balance sheet, totaled $312 million compared to $177.1 million at December 31, 2012.

During 2013, working capital employed declined by approximately $30 million. The decline primarily reflects lower levels of both receivables and inventory. During the fourth quarter, Winchester was able to increase inventory, but throughout 2013, Winchester inventories declined compared to December 31, 2012 levels and remain well below December 31, 2011 levels. Inventory levels in the Chemical Distribution business also declined in both the fourth quarter of 2013 and for the full year.

As we look ahead to 2014, we expect that inventory levels in the Winchester and Chemical Distribution businesses will gradually be replenished. As a result, during 2014, we expect working capital to be a use of cash. Capital spending in the fourth quarter of 2013 was $20.4 million and for the full year 2013, was $90.8 million.

Full-year 2013 depreciation and amortization expense was $135.3 million. By comparison, capital spending in 2012 was $255.7 million and depreciation and amortization expense in 2012 was $110.9 million. In 2014, we are continuing to forecast that capital spending will be in the $95 to $105 million range and that depreciation and amortization expense will remain in the $135 million to $140 million range. We believe the maintenance level of capital spending to be in the $75 to $85 million range.

During 2013, Olin repaid $23.7 million of debt that matured. During both 2014 and 2015, there is $12.2 million of maturing debt and no other debt maturities until the second quarter of 2016.

Now, turning to the income statement. Selling and administration expenses increased $18.3 million in the fourth quarter of 2013 compared to the fourth quarter of 2012. This year-over-year increase reflects the combination of higher legal and legal-related settlement costs of $10.5 million, and a mark-to-market adjustment on stock-based compensation of $5.7 million. The legal and legal-related settlement costs primarily reflect legacy environmental issues and ongoing environmental insurance recovery activities.

The mark-to-market adjustment associated with stock-based compensation reflects the approximately $6 increase in the Olin share price experienced in the fourth quarter of 2013. Each $1 change in the stock price increases or decreases selling and administration expenses by approximately $750,000. In the fourth quarter 2012, by comparison, the stock price was essentially unchanged.

Selling and administration expenses as a percentage of sales were 9.9% in the fourth quarter of 2013 compared to 6.4% in the fourth quarter of 2012. Full-year 2013 selling and administration expenses increased $21.4 million compared to full-year 2012 levels. In addition to the legal and stock-based compensation costs, the full-year ownership of KA Steel increased these expenses by $7 million.

Full year selling and administration expenses as a percentage of revenue in 2013 were 7.6% compared to 7.7% in 2012. Fourth quarter 2013 charges to income for environmental, investigatory, and remedial activities were $5.3 million compared to $1.6 million in the fourth quarter of 2012. Due to the timing of certain regulatory decisions and cleanup actions, more than 50% of the total 2013 charges to income for environmental, investigatory, and remedial activities were incurred in the fourth quarter. These charges relate primarily to the expected future, environmental, investigatory, and remedial activities associated with past manufacturing operations and waste disposal sites.

Full year 2013 charges to income for environmental, investigatory, and remedial activities were $10.2 million, which includes $1.3 million of recoveries from third parties of costs incurred and expensed in prior periods. 2014 expenses for environmental, investigatory and remedial activities are currently forecast to be in the $15 to $20 million range. We are not forecasting any recovery in 2014 of environmental, investigatory, and remedial costs incurred and expensed in prior periods.

On a total company basis, defined benefit pension plan income was $5.2 million in the fourth quarter of 2013 and was $20.5 million for the full year 2013. We expect 2014 defined benefit pension plan income to be similar to 2013. We did not make any cash contributions to the domestic defined benefit pension plan in 2013 and we are not required to make any cash contributions to our domestic defined benefit pension plan in 2014.

During 2013, we did contribute approximately $1 million to our Canadian defined benefit pension plan and expect to make a similar cash contribution in 2014. During the fourth quarter of 2013, Olin recorded a pretax restructuring charge of $1.4 million associated with the exiting the use of mercury cell technology in the chlor alkali manufacturing process and the ongoing relocation of the Winchester centerfire ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi. We currently expect that pretax restructuring charges of $4 million to $5 million will be recorded in 2014 for these activities.

The effective tax rate in the fourth quarter of 2013 was 19%, which included $4 million of favorable tax adjustments, primarily associated with the use of capital loss carryforwards on the sale of the joint venture interest. Excluding these adjustments, the effective tax rate was 32%. For the full year 2013, the cash tax rate was approximately 26%, which reflects the benefits of accelerated depreciation included in the 2010 Jobs Creation Act. In 2014, we currently believe the effective tax rate will be in the 35% to 37% range.

As Joe mentioned earlier, during 2013, we repurchased approximately 1.5 million shares of Olin stock at a cost of approximately $36 million. As we move into 2014, we intend to continue to repurchase shares on a steady and opportunistic basis.

In 2013, Olin demonstrated the cash generation capabilities of the business and as we move into 2014, we are well positioned to continue to generate cash. We expect capital spending to remain below the level of depreciation and between now and the second quarter of 2016, we face less than $25 million of required debt repayments. In addition, we do not face any cash contributions to the large domestic defined pension benefit plan.

On January 24, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on March 10, 2014 to shareholders of record at the close of business on February 10, 2014. This is the 349th consecutive quarterly dividend to be paid by the Company.

Before we conclude, let me remind you that throughout this presentation, we have made statements regarding our estimates of future performance. Clearly, these are forward-looking statements and results could differ materially from those projected. Some of the factors that could cause actual results to differ are described without limitations in the risk factor section of our most recent Form 10-K and in our fourth quarter earnings release.

A copy of today's transcript will be available on our website in the investor section under calendar of events. Earnings press release and other financial data and information are available under press releases.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Frank Mitsch, Wells Fargo Securities.

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

Good morning, gentlemen, and congrats on a nice year. John, I wanted to come back to the steady and opportunistic basis on the share buyback.

You started in earnest sometime during Q1 2013 and then accelerated from that pace. All else equal, given where you started from, would it be unusual to expect that Olin buys back more stock in 2014 than they did in 2013?

John Fischer - *Olin Corporation - SVP and CFO*

I think we would be steady and opportunistic. I think what you saw in Q2, Q3, and Q4 is representative of what we think steady and opportunistic is.

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

Great. You outlined some of the uses of cash, and you also mentioned M&A. What is your expectation for properties becoming available in 2014, and are you quasi-confident that you'll be able to execute something in that regard?

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

Frank, as you know, we're constantly looking at anything and everything, primarily downstream in bleach, hydrochloric acid, et cetera. But I would say that there is probably quasi-confidence that we would be able to find something that we could do, yes.

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

Okay, great. Obviously, Q4 had a fair amount of expenses on the legal side and obviously mark-to-market. What's your expectation of those expenses as we look out into 2014? I know that you gave us good guidance on the environmental provisions, but I was just curious as to those other expenses.

John Fischer - *Olin Corporation - SVP and CFO*

I think, Frank, the best way to think about it is the corporate and other line in the segment income statement, we would say that 2014, that spending should be in the $72 to $78 million range; and that encompasses the legal costs.

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

All right, so a modest step down. All right, terrific. Thank you so much.

Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - *Sidoti & Company - Analyst*

Could you talk to us a little bit more about the pricing environment on chlor alkali as it pertains to demand? We've had a bit of an about-face with the caustic price increase not being accepted, but now chlorine and stronger-than-expected demand. Could you tie in the outage with one of your peers and how that might be playing in?

John McIntosh - *Olin Corporation - SVP, President, Operations*

Chris, this is John. Let me speak to 2013. If you look at 2013, there were $60 worth of chlorine price increases announced and $160 of caustic price increases announced.

Yet, when you look at 2013 from the perspective of how pricing indexes behaved, really there was ground lost on both chlorine indexes and caustic indexes. So it was a year in which the industry was working hard to try to move pricing, but found an environment on the demand side that just didn't create enough momentum for that to happen.

As we looked, and I can only speak for what we see across our system, as we looked into the last half of the fourth quarter and into the first quarter, we saw pretty significant pickup in demand for chlorine products across several different sectors that we serve, notably in vinyls. When we try to forecast what we think is going to happen with operating rates moving forward for us, we see operating rates moving higher sequentially as we approach the peak seasons for us.

We believe chlorine's going to be tight; that constituted the basis for the chlorine price increase that we announced. We've put our customers on order control because, quite frankly, we don't have material; and out of some of our locations, we're actually late listing orders for chlorine now.

We hope that the environment we're seeing is being seen by other producers across the industry. We hope this is a trend on the demand side for chlorine, which will set the stage for chlorine pricing moving up in 2014.

Christopher Butler - *Sidoti & Company - Analyst*

Shifting gears to the distribution business, you had mentioned some of the capability issues on the potassium hydroxide. You'd said that you are expecting better things in 2014.

Does that imply that those difficulties, regulatory and otherwise, have kind of been taken care of at this point?

John McIntosh - *Olin Corporation - SVP, President, Operations*

Yes, they have.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

Operator

Edward Yang, Oppenheimer.

Edward Yang - *Oppenheimer & Co. - Analyst*

You mentioned the stronger -- you mentioned chlorine's up in January. You had a price increase. Did any other producer follow through with the $50 chlorine price increase you announced last week?

John McIntosh - *Olin Corporation - SVP, President, Operations*

To my knowledge, not yet to this point in time.

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

But that was late last week, Edward, that that was announced; so it's a bit early.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. Thank you. Have you provided guidance on first quarter operating rates and ECU netback? John mentioned it's going to be up sequentially.

John McIntosh - *Olin Corporation - SVP, President, Operations*

We have not. We are seeing continued strong demand on the chlorine side. That's obviously going to drive operating rates up. But we have not provided specific guidance.

Edward Yang - *Oppenheimer & Co. - Analyst*

John, when you say that you have not been able to meet some customer demand on the chlorine side, does that mean effectively an operating rate in the 90%? Typically, that's what I would associate with being at or near capacity.

John McIntosh - *Olin Corporation - SVP, President, Operations*

That is spoken from a specific plant perspective.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. Got you.

John McIntosh - *Olin Corporation - SVP, President, Operations*

Across the system we are able to, but we have had requirements or demands or orders at certain locations that we're just unable to meet on a freight logical standpoint.

Edward Yang - *Oppenheimer & Co. - Analyst*

Stepping back to look at fourth quarter ECU netback $525, that was a bit of a larger decline than I would have anticipated. I know you were looking for, I think, closer to a $20 decline. That was more than that.

If I look at industry pricing, which you typically lagged by about a quarter or two in terms of what you pass through your customers, fourth quarter ECU netback for the industry was down about 5%. Does that mean you expect first-quarter ECU netback for you to be down about 5%?

John McIntosh - *Olin Corporation - SVP, President, Operations*

We just haven't provided any guidance on that. Let me speak to the fourth quarter change.

When we did our last call talking about third quarter earnings, we were in a position where there was a caustic price increase on the table; and we actually believed we would see some improvement in our pricing as a result of that.

What happened to us was, in fact, we saw no improvement from that; and index pricing for caustic went down two different times in the third quarter, which created the environment, at least in our portfolio of contracts, where we saw caustic pricing decrease in the fourth quarter. That's the majority of what was behind the price decrease that we saw.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. On the Winchester side, I got a modified AR-15 over Christmas; so I'm doing my part to support the demand there.

But in terms of trying to size the magnitude of the downtrend you would see from the surge that, this remarkable surge that you've seen, would you be able to provide any additional color in terms of what you expect to see in the second half?

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

I think what we would see in the second half, Edward, is that we're going to see the first half probably equal to or stronger; and I think we'll start to see the tail-off in the second half. I think what happened the last time is that our earnings were off about 10% when you compare full year to full year. Our volumes were off 10%.

John Fischer - *Olin Corporation - SVP and CFO*

Second year out from the start of the surge, the earnings were off about 10%. That was in 2010 compared to 2009.

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

Right.

John Fischer - *Olin Corporation - SVP and CFO*

That's the best we can do.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. Thank you very much.

Operator

Herb Hardt, Monness.

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

The question is regarding distribution. It's obviously been disappointing. Could you explain in a little more detail what actually has not worked and why it's now coming back into reality?

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

I think a couple things to hit on that, Herb. Number one is that, as we talked about, we didn't have equipment in place to be able to handle some of the synergy that we're looking for, which is the distribution of our cold products, which would be KOH, HCl, and bleach. That was a little bit slower than we thought.

In addition to that, as we mentioned in the comments, is that there has been a fairly aggressive situation out in the marketplace that was a little bit unanticipated that I think, over time will mitigate itself.

John Fischer - *Olin Corporation - SVP and CFO*

I think, Herb, I'd like to add one other thing. If you looked at Chemical Distribution, the business itself did generate a meaningful level of after-tax cash flow for us. It just didn't do it to the degree that we had hoped.

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

Okay. Thank you.

Operator

Edlain Rodriguez, UBS.

Edlain Rodriguez - *UBS - Analyst*

Just one quick question on Winchester. Given your view of a strong first half and moderation in the second half, do you see 2014 as normal demand conditions? Or are we still above that and it's probably going to be 2016 where it's normal?

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

We are above normal conditions this year.

Edlain Rodriguez - *UBS - Analyst*

For 2014?

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

For 2014, we are above normal conditions.

Edlain Rodriguez - *UBS - Analyst*

Okay, okay. That's fine. Another question on your guidance, your EBITDA range of $375 to $420 million, when you look at all the different segments, can you give us what you think of the split between the segments that make up that $375 million, $420 million?

John Fischer - *Olin Corporation - SVP and CFO*

The only thing we said, and I think we'll stick with that, is when you compare it to 2013, we talked about the view that in the second half of 2014, we expected Winchester to moderate compared to 2013.

Edlain Rodriguez - *UBS - Analyst*

Okay. Thank you.

Operator

Bobby Geornas, Susquehanna.

Bobby Geornas - *Susquehanna Financial Group / SIG - Analyst*

How much more caustic soda did you export in the fourth quarter than in the third quarter? Was this a key driver of weaker overall pricing?

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

We don't normally participate in the export market, Ben. If that question is how much did we export--

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John McIntosh - *Olin Corporation - SVP, President, Operations*

Negligible amount.

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

Negligible.

Bobby Geornas - *Susquehanna Financial Group / SIG - Analyst*

Okay. Also, in your opinion, is there any potential for incremental shutdowns coming here in the US, perhaps some of the units of older technology? What is your outlook for the supply side here over the next year or so?

John McIntosh - *Olin Corporation - SVP, President, Operations*

We believe that there will be rationalization in the industry as the new capacity comes on. We have consistently said that this industry will continue to consolidate, we believe, and that capacity will continue to be rationalized.

Bobby Geornas - *Susquehanna Financial Group / SIG - Analyst*

Thank you.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

First of all, just a bookkeeping question. What was the depreciation amortization for Winchester in 2013?

John Fischer - *Olin Corporation - SVP and CFO*

Approximately $15 million.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, that's what I thought. Can you talk a little bit about the freight rates, both in terms of the fourth quarter, as well as what your outlook is for 2014?

I know they've sort of stopped increasing at the pace they had in the previous two or three years, but I think they're still up. What's your outlook for 2014 in terms of freight rates and in terms of input costs, such as energy on year-over-year basis?

John McIntosh - *Olin Corporation - SVP, President, Operations*

Freight costs, first, let me speak to that. Year-over-year freight costs were basically flat. We attribute that to a lot of the advocacy work that's being done by the shippers in Washington trying to pursue more equitable treatment from the railroads in terms of freight-related costs.

We also believe that the chemical industry, and we have, specifically, within Olin taken competitive actions by moving product by other modes as opposed to rail. We also believe that's had an impact on freight.

We would like to believe that there's really no incentive for freight rates to return to double-digit kinds of increases that we've seen over the last three years and believe that the right environment is one that we saw in 2013, which is relatively flat in terms of increases.

Energy costs per ECU went up 6% in 2013 across our system, mostly driven by natural gas pricing. Of course, in the first quarter of 2014, we have seen a further spike in natural gas prices related, I think, to the withdrawal rates because of the cold weather across the country.

But we don't expect that nearly $5 natural gas price to be the norm going forward, and we would expect electricity costs to not increase at a level commensurate with that and not increase significantly over what we saw in 2013.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, okay. Very good. A follow-up on the pricing and demand environment, it sounds like you're seeing better chlorine demand in the PVC market and hopefully, the TiO2 market will be a little bit better in 2014 as the coating industry looks to be fairly strong in terms of the outlook for 2014.

Is the increased chlorine production that you're looking to generate, particularly in the second and third quarter, your seasonally highest quarters, is that going to be matched by improvements in demand in caustic? Or do you expect to see some pricing challenges in caustic as more of this chlorine comes to the market?

John McIntosh - *Olin Corporation - SVP, President, Operations*

If we're right in our belief that we're seeing a more typical recovery occur with chlorine demand and chlorine pricing strength leading the economy from a period of stagnation and almost no increased demand to a period of increased demand, then we will see some pressure on caustic as chlorine prices move up, driven by higher chlorine demands. But that is a typical pattern that the industry has seen in the past.

For us, as we continue to increase the amount of bleach we produce in the peak seasons of bleaches in ECU consumer, chlorine and caustic, and that will be important to us to manage that.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Finally, you mentioned in an answer to the previous question that you're not a participant in the export market for caustic. It is a market, at least from what we're reading, that is stable and growing. And there are opportunities there if the pricing differences continue, particularly in the energy side between US and the rest of the world.

Do you have plans within the Company to take a closer look at the export market; or are you just not set up, for some particular reason, to be an effective exporter?

John McIntosh - *Olin Corporation - SVP, President, Operations*

We have capabilities to export. But because we've not historically done it, we have centered our caustic business on the North American caustic contract market.

That's what we're used to doing. We're not at all adverse to participating in the export market, and we do have plants that are situated in locations where exporting would be possible. If that's what makes sense for us, then that's what we would do.

Dmitry Silversteyn - *Longbow Research - Analyst*

Would the exporting be to large distributors that will move your product into the individual customers, or would you have to sign up specific customer relationships to become a bigger exporter?

John McIntosh - *Olin Corporation - SVP, President, Operations*

We would probably look to export through distributors first because that is a way to do it on a more moderate basis than dealing direct with export customers.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Thank you very much.

Operator

Aleksey Yefremov, Bank of America Merrill Lynch.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Question on Winchester. Are you implementing any price increases this year, maybe January 1 to later on?

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

There's no announced price increases at this point in time. If you recall, Alex, we announced price increases back in June; and naturally, we'll continue to evaluate that as we get into the year. But there's not a January price increase in the industry announced.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Great, thank you. On your outlook for Winchester for moderation in the second half, is this outlook based on prior cycles and your general experience with demand trends? Or is it based on something you already see in the marketplace?

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

It's based on history, not on what we're seeing.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Okay. So the marketplace, basically you see no change in terms of demand levels, inventory levels, et cetera?

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

No. We talked about the backlog as pretty strong backlog at this point.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Right, right. Makes sense. Final question on Winchester. You mentioned expected savings of $24 to $26 million from relocation. Is it incremental to $22 million achieved in 2013, or the $2 to $4 million is incremental that we should expect?

John Fischer - *Olin Corporation - SVP and CFO*

What we said was that the actual cost savings in Winchester in 2013 from the relocation was $16 to $17 million, which is a $22 million improvement from 2012 because we had costs in 2012. The $26 million compares to the $17 million.

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

Right.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Got it. That's it. Okay. Thanks a lot.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

As you expect the Winchester business will begin to moderate in the second half, do you expect to see any pushback from retailers in the pricing? Is there a lag typically involved in the impact that you see in the margins when you do receive pricing pressure?

John Fischer - *Olin Corporation - SVP and CFO*

Over the long run, the price of product tends to reflect the underlying costs of the commodity metals, which are copper, lead, and zinc. Those prices over the last 12 months have been relatively range-bound.

So absent a significant movement down in those, we would not expect to see significant price pressure, even as demand backs off.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, great. In your expectation of seeing a typical chlorine demand cycle, will the pricing pressure to the caustic have a negative impact on the distribution margins?

John McIntosh - *Olin Corporation - SVP, President, Operations*

No, not typically.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, great. Thanks.

Operator

Richard O'Reilly, Revere Associates.

Richard O'Reilly - *Revere Associates - Analyst*

I want to get back out on the power costs of natural gas. Can you refresh us what's your exposure to the major power sources: water, gas, et cetera?

John McIntosh - *Olin Corporation - SVP, President, Operations*

We haven't specifically detailed our power mix. I can say that we have a relatively equal mix of power, a relatively balanced mix of power amongst all four of those fuel sources that you've mentioned.

And we think that's one of the strengths we have as we look at our energy input costs.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. As gas has gone up, you've continued your historical advantage vis-a-vis the Gulf producers?

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

That's fair.

John McIntosh - *Olin Corporation - SVP, President, Operations*

That's correct.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Second question, it's more a philosophical question on your earnings guidance. You're willing to give a full-year EBITDA guidance and then quarterly EPS. Why not both apples to apples or one or the other?

John Fischer - *Olin Corporation - SVP and CFO*

We usually just give quarterly earnings per share guidance. The first time we gave full-year guidance was last year, and we decided to give it on an EBITDA basis; and that's the practice we're following.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Versus a full-year EPS?

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

At this time, that's right, Richard.

Richard O'Reilly - *Revere Associates - Analyst*

Okay, fine. Okay. Okay. Thank you, then.

Operator

At this time, we have no further questions. We will go ahead and conclude today's question and answer session. At this time, I would like to turn the conference back over to management for any closing remarks. Gentlemen?

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

We'd like to thank you for joining us today, and we look forward to speaking with you in April when we announce our results of our first quarter. Thank you.

Operator

We thank you, sir, and to the rest of management for your time today. We thank you all for attending today's presentation. At this time, you may disconnect your lines. Thank you. Take care, everyone.