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OLN - Q4 2014 Olin Corp Earnings Call

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OVERVIEW:

OLN reported 4Q14 sales of \$499.8m and income from continuing operations of \$12.8m or \$0.16 per diluted share. Expects 1Q15 diluted EPS to be \$0.20-0.25.



CORPORATE PARTICIPANTS

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John Fischer *Olin Corporation - President & COO*

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PRESENTATION

Operator

Welcome to the Olin Corporation fourth quarter earnings 2014 conference call. (Operator Instructions) I would now like to turn the conference over to Joseph Rupp, Chairman and CEO. Mr. Rupp, please go ahead.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Good morning. Thanks for joining us today. With me this morning is John Fischer, our President and Chief Operating Officer; John McIntosh, our Senior Vice President of Chemicals; Todd Slater, VP 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 fourth quarter of 2014 was \$12.8 million or \$0.16 per diluted share, which compares to \$24.7 million or \$0.31 per diluted share in the fourth quarter of 2013. Sales in the fourth quarter of 2014 were \$499.8 million compared to \$562.1 million in the fourth quarter of 2013.

Fourth quarter 2014 results included \$11.2 million of pre-tax restructuring charges, primarily related to the decision to permanently close approximately 50% of our chlor alkali capacity at the Becancour, Canada, facility.

Fourth quarter of 2013 results included \$1.4 million of pre-tax restructuring charges, a pre-tax gain of \$6.5 million associated with the sale of a joint venture interest, and \$4 million of favorable tax adjustments.



In 2015, we expect segment earnings in all three businesses to improve compared to 2014. In Chlor Alkali, we believe that we've reached the trough of this cycle and as a result, we expect a meaningful year-over-year improvement in Chlor Alkali Products earnings, which will be generated by improved ECU netbacks and higher volumes in hydrochloric acid, bleach, and potassium hydroxide.

In Winchester, while we forecast lower ammunition shipments in the first quarter of 2015, when we compare it to the first quarter of 2014, we expect ammunition shipments for the full year of 2015 to be similar to 2014. We also expect that the cost reductions from our ongoing centerfire ammunition manufacturing relocation project will result in improved Winchester segment earnings in 2015 when compared to 2014.

Chemical Distribution segment earnings are also forecast to improve, reflecting increased caustic soda, hydrochloric acid, bleach, and potassium hydroxide volumes.

Overall, 2015 Olin earnings are forecast to be negatively impacted by higher corporate costs, including higher legacy environmental expenses and lower levels of pension income, which is primarily the result of adopting the newly-mandated mortality tables.

We are forecasting adjusted EBITDA in 2015 in the \$340 million to \$380 million range, which includes approximately \$6 million of pre-tax restructuring costs. In 2014, Olin generated adjusted EBITDA of \$344.2 million, which includes \$15.7 million of pre-tax restructuring costs.

Winchester's fourth quarter and 2014 commercial volumes and segment earnings reached the second-highest fourth quarter levels ever. During the fourth quarter of 2014, Chlor Alkali experienced both lower chlorine and caustic volumes and ECU netbacks, reflecting lower caustic soda prices when compared to the fourth quarter of 2013.

Fourth quarter 2014 chemical distribution segment earnings were comparable to the fourth quarter of 2013. And Olin's fourth quarter 2014 adjusted EBITDA was \$60.6 million.

First quarter 2015 net income is forecast to be in the \$0.20 to \$0.25 per diluted share range. Chlor Alkali first quarter 2015 earnings are expected to be similar to fourth quarter of 2014, reflecting higher ECU netbacks and higher volumes, offset by higher operating costs. First quarter 2015 Chemical Distribution earnings are expected to improve from the fourth quarter of 2014 and earnings in the Winchester segment are expected to be slightly lower than the first quarter of 2013 levels.

First quarter 2015 earnings are also expected to include pre-tax restructuring charges of approximately \$1 million.

The outlook for the Winchester business in 2015 and beyond continues to be positive and we believe that the commercial ammunition demand will remain above the levels experienced prior to the surge that began in late 2012. We also expect Winchester will continue to realize additional cost savings from the ongoing centerfire relocation project through 2016.

We believe the chlor alkali industry is poised to improve from the trough conditions that were experienced in 2014. Chlor alkali operating rates in November and December of 2014 were stronger and the overall chlor alkali output in the United States was the highest since 2008.

In January 2015, Olin announced a \$75 per ton chlorine price increase. Other producers have announced chlorine price increases. Because of the solid industry operating rates and the strong demand during a typically weaker season, we believe some portion of this chlorine price increase will be realized.

In addition, our Chlor Alkali business continues to experience growth for value-added products, such as bleach, hydrochloric acid, and potassium hydroxide. And during the fourth quarter of 2014, over half of our Chlor Alkali segment earnings were generated from the sales of these value-added products.

We continue to look for ways to best deploy our cash flow in a manner to increase shareholder value and we will continue to consider accretive acquisitions and investments, share repurchases, and dividend policy.

During the fourth quarter, we repurchased approximately 830,000 shares of our common stock. And for the full year 2014, we repurchased approximately 2.5 million shares of common stock. We intend to be a consistent, steady, and opportunistic buyer of our shares over time.

Overall, I continue to be optimistic about our prospects. We believe our Chlor Alkali business has reached the trough of this cycle for both demand and pricing. The business is also continuously being strengthened by the increased production and sale of co-products.

We also believe the prospects for Winchester are brighter than ever and are being enhanced by the ongoing centerfire ammunition relocation. In the Chemical Distribution business, we are seeing gradual improvements and we've seen increased shipments of Olin-produced bleach, hydrochloric acid, and potassium hydroxide during 2014. And to reiterate, in 2015, we expect segment earnings in all three businesses to improve when compared to 2014.

As a result, Olin is well positioned to generate consistent positive cash flows and to further grow the business and reward our shareholders.

I'm going to turn the call over to our President and Chief Operating Officer, John Fischer, who will discuss the businesses in more detail. John?

John Fischer - *Olin Corporation - President & COO*

Thank you, Joe. Let me begin with Chlor Alkali. Demand for chlorine in Olin's system continued to be uneven during the fourth quarter. Fourth quarter 2014 chlorine shipments declined 7% compared to the fourth quarter of 2013, as several of our larger chlorine customers had planned and unplanned maintenance outages.

The uneven demand was reflected by the level of chlorine shipments to major end-use customers. Fourth quarter 2014 chlorine shipments to vinyls customers decreased by 36% compared to the fourth quarter of 2013, while shipments to titanium dioxide customers increased 38% and shipments to urethanes customers were similar to the fourth quarter of 2013.

Fourth quarter 2014 caustic soda shipments were also similar to the fourth quarter of 2013.

As we had previously discussed, in late June, we experienced an incident at one of our two chlor alkali production units at our Becancour, Canada, facility. The other unit has continued to operate at normal rates.

The damaged unit, which represents approximately 50% of the facility's capacity, did not operate in the third and fourth quarters and we have announced our plan to permanently close this capacity. As a result, our system-wide capacity has been reduced by approximately 9%. After giving consideration to this closure, our operating rate for the fourth quarter 2014 was 84%.

During the fourth quarter of 2014, the impact of planned and unplanned customer outages reduced our operating rate by approximately 3 percentage points.

Fourth quarter 2014 shipments of hydrochloric acid increased 4% compared to the fourth quarter of 2013 and potassium hydroxide shipments increased 14%. Fourth quarter 2014 shipments of bleach were similar to the fourth quarter of 2013, but full-year 2014 bleach shipments improved 2% compared to the 2013 level.

In addition to the year-over-year growth in bleach, hydrochloric acid full-year 2014 shipments increased 19% compared to 2013 and were a full-year record. Full-year 2014 potassium hydroxide shipments increased 9% compared to 2013 and were also a full-year record.

During the fourth quarter of 2014, the ECU netback was approximately \$490 per ton compared to approximately \$525 per ton in the fourth quarter 2013 and the third quarter of 2014 level of approximately \$505 per ton.

In the first quarter 2015, we expect the ECU netbacks to increase compared to the fourth quarter of 2014, but to be lower than the first quarter of 2014 levels. We anticipate sequential improvement in both chlorine and caustic soda pricing from the fourth quarter of 2014 to the first quarter of 2015.

During the fourth quarter of 2014, the caustic soda price indices increased a total of \$30 per ton. The benefit of this increase should favorably impact the first quarter of 2015 ECU netbacks

Because of an improved outlook for chlorine demand in our system, Olin announced a \$75 per ton chlorine price increase in January. While we believe some portion of this chlorine price increase will be realized, the impact is not expected until the second quarter of 2015.

As Joe mentioned, we believe that the chlor alkali cycle has troughed out. In a typical chlor alkali cycle, improvement is led by increased demand from the chlorine side of the molecule, which results in improved operating rates and higher chlorine prices. We believe that 2015 could be the start of a new chlor alkali cycle.

Fourth quarter 2014 hydrochloric acid prices increased compared to the fourth quarter of 2013 levels and also compared to third quarter 2014 levels. Hydrochloric acid prices continue to represent a meaningful premium to the price of chlorine.

We continue to make progress on our objective in the chlor alkali business of growing the amount of our chlorine capacity that is sold as bleach or hydrochloric acid. Over the past five years, our bleach volumes have grown at a compound growth rate of 11% and hydrochloric acid volumes have grown at a rate of 8%.

Fourth quarter Chlor Alkali 2014 segment earnings were \$28.8 million compared to fourth quarter 2013 segment earnings of \$30.7 million. The year-over-year decline reflects lower chlorine and caustic soda volumes and lower ECU netbacks, partially offset by higher volumes of hydrochloric acid and potassium hydroxide, higher hydrochloric acid prices, and lower costs.

First quarter 2015 Chlor Alkali segment earnings are forecasted to decline compared to the first quarter of 2014, primarily due to lower ECU netbacks. We expect the first quarter 2015 operating rate to be in the mid-80% range.

Now turning to Chemical Distribution. The financial performance for the Chemical Distribution business in the fourth quarter of 2014 was comparable to the fourth quarter of 2013. During the fourth quarter of 2014, the business experienced significant growth in the shipments of Olin-produced hydrochloric acid and potassium hydroxide. In fact, during the fourth quarter 2014, the business achieved a record level of quarterly shipments of these Olin-produced products.

We are encouraged that these products are beginning to gain traction in our distribution customer base. Increased sales of these co-products will be a key component in the improvement of Chemical Distribution profitability as we move forward.

In the fourth quarter of 2014, caustic soda shipments were similar to the fourth quarter of 2013. We have continued to experience aggressive pricing in the caustic soda market from large global distributors, which reduced fourth quarter 2014 caustic soda margins compared to the fourth quarter of 2013.

Fourth quarter 2014 bleach volumes were comparable to fourth quarter 2013 levels. Chemical Distribution fourth quarter 2014 and 2013 segment earnings were both break-even. The effective higher shipments of hydrochloric acid and potassium hydroxide were offset by lower caustic soda margins.

Fourth quarter 2014 Chemical Distribution segment EBITDA was \$3.9 million. We expect Chemical Distribution earnings in the first quarter of 2015 to improve from the first quarter of 2014. In the first quarter, we anticipate continued sequential improvement in Chemical Distribution sales of Olin-produced hydrochloric acid and potassium hydroxide from the fourth quarter 2014.

The Chemical Distribution business has been and continues to be a positive generator of cash for Olin. Since the acquisition, the after-tax cash flow has been approximately \$50 million. As a result of the growth in co-product sales and the continued focus on improving the returns in caustic soda, we expect the EBITDA generated by the Chemical Distribution to double over the next two years.

In addition to this growth in chemical distribution segment EBITDA, we also expect the chlor alkali business to realize approximately \$10 million to \$15 million of annual benefit beyond the chemical distribution EBITDA from producing the co-products as well as logistics and infrastructure cost savings.

And now Winchester. Fourth quarter 2014 Winchester segment results reached the second-highest level of fourth quarter earnings in the history of the business. As expected, commercial demand declined from surge levels for pistol, shotshell, and rifle ammunition, while rimfire ammunition demand continued at record levels.

Fourth quarter commercial sales declined approximately 25%, while sales to law enforcement customers increased by approximately 23%. Fourth quarter 2014 sales were \$147.2 million, which is 17% lower than the record fourth quarter 2013 sales. And fourth quarter 2014 segment earnings of \$17.4 million also declined from the record fourth quarter of 2013 level.

The fourth quarter 2014 year-over-year decline in Winchester segment earnings reflects the combination of lower volumes, higher material and other costs, and higher manufacturing costs, primarily due to two planned maintenance outages. These were partially offset by improved pricing.

For the full year 2014, commercial sales decreased 9% compared to the surge levels in 2013, while full-year law enforcement sales increased 11% compared to 2013. This resulted in full-year Winchester sales of \$738.4 million, a decrease of 5% from last year's record level. Full-year 2014 Winchester segment EBITDA was \$143.6 million compared to \$158.1 million in the surge year of 2013.

As we move into the first quarter, while consumer demand for pistol, shotshell, and rifle ammunition has declined compared to surge levels, it remains robust. The commercial backlog at December 31, 2014, was approximately \$215 million, which, while below the \$400 million level we experienced throughout most of 2013, it is substantially higher than the pre-surge levels experienced in 2012. As a point of comparison, the pre-surge December 31, 2011, commercial backlog was approximately \$30 million.

During the fourth quarter of 2014, the purchase cost of copper declined compared to the fourth quarter of 2013, while the purchase cost of lead and zinc increased compared to the fourth quarter of 2013.

Also, the full-year purchase cost price for copper was lower than the 2013 full-year price. And the full-year 2014 purchase prices for lead and zinc were higher than the 2013 prices. In total, commodity metal costs in 2014 were slightly lower than they were in 2013.

The centerfire relocation project continues to move forward and to generate cost reductions. During the fourth quarter of 2014, all pistol ammunition and approximately 85% of all rifle ammunition were produced in Oxford. By the beginning of December, all commercial rifle ammunition was being produced in Oxford.

During the full year 2014, the cost savings realized were approximately \$24 million. And at the end of 2014, approximately 775 of the projected 1,000 total jobs to be relocated had been moved.

During 2015, we forecast the annual cost savings realized from the centerfire ammunition relocation project to increase to approximately \$30 million. And we continue to expect the entire relocation to be completed by early 2016. We also continue to believe the annual cost savings realized from the project will be \$35 million to \$40 million and that this level of savings will be realized annually beginning in 2016.

Winchester's first quarter 2015 segment earnings are currently forecasted to decline compared to the earnings in the first quarter of last year, but will be only slightly lower than first quarter 2013 surge levels.

As we look at the full year 2015 for the Winchester business, we believe ammunition volumes in the second half of the year may experience a year-over-year improvement from 2014. Of note, January 2015 federal firearms background checks increased 8.4% compared to January 2014, which was the fourth consecutive year-over-year monthly increase.

As a result of our view of the 2015 ammunition demand and the cost reductions from the Oxford relocation, we are forecasting that our full-year 2015 Winchester segment earnings will improve from the 2014 segment earnings of \$127.3 million.

As we look at the Winchester business over the long run, we continue to believe that the significant increase in gun ownership that has occurred over the past five years, as well as the increase the number of people who have become regular target shooters will result in commercial ammunition demand in excess of historical levels. The combination of the improved demand profile and the full realization of the \$35 million to \$40 million of annual cost savings from the centerfire ammunition relocation projects makes us confident in the long-term prospects for the Winchester business.

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

Todd Slater - *Olin Corporation - VP & CFO*

Thanks, John. First I'd like to discuss the balance sheet and the 2014 cash flow. Cash and cash equivalents at December 31, 2014 totaled \$256.8 million compared to \$307.8 million at December 31, 2013.

During 2014, working capital employed increased by approximately \$62 million. The increase primarily reflected the anticipated higher levels of inventories. Winchester's year-end inventory was increased by approximately \$30 million, because it was able to replenish inventories in 2014 that it had liquidated in 2013.

Capital spending in the fourth quarter of 2014 was \$22.1 million and for the full year, it was \$71.8 million. Full-year depreciation and amortization expense was \$139.1 million. By comparison, capital spending in 2013 was \$90.8 million and depreciation and amortization expense in 2013 was \$135.3 million.

In 2015, we forecast that capital spending will be in the \$120 million to \$130 million range and that depreciation and amortization expense will be in the \$140 million to \$145 million range. We believe that the maintenance level of capital spending will be in the \$70 million to \$80 million range.

During the fourth quarter, Olin repaid \$13.2 million of debt that matured. During 2015, there will be \$16.4 million of payments on maturing debt. During the fourth quarter of 2014, we repurchased approximately 830,000 shares of Olin stock at a cost of \$20.1 million.

A total of 2.5 million shares have been repurchased during 2014 at a cost of approximately \$64.8 million. There are approximately 6.1 million shares remaining under the April 2014 8 million share authorization. And as Joe said earlier, we intend to continue to repurchase shares on a consistent and steady and opportunistic basis.

Now turning to the income statement. Selling and administration expense decreased \$13.8 million in the fourth quarter of 2014 compared to the fourth quarter of 2013. This year-over-year decrease was primarily due to lower stock-based compensation of \$8.1 million, which includes mark-to-market adjustments and lower legal and legal-related settlement costs of \$6.6 million.

The higher legal and legal-related settlement costs in the fourth quarter of last year primarily related to legacy environmental issues and environmental insurance recovery activities. The mark-to-market adjustment associated with stock-based compensation reflects the approximately \$2.50 per share decrease in the Olin stock price experienced in the fourth quarter of 2014.

Each dollar change in stock price increases or decreases selling and administration expenses by approximately \$750,000. In the fourth quarter of 2013, the stock price increased by approximately \$6 per share.



Selling and administration expenses as a percentage of sales were 8% in the fourth quarter of 2014 compared to 10% in the fourth quarter of 2013. Full-year 2014 selling and administrative expenses decreased by \$19.6 million compared to full-year 2013 levels.

This year-over-year decrease was primarily due to a lower incentive compensation of \$18.1 million, which includes mark-to-market adjustments on stock-based compensation and lower legal and legal-related settlement costs of \$15.5 million, partially offset by a \$13.9 million recovery of legacy legal costs in 2013.

In 2015, we expect selling and administration expenses to be similar to the 2013 levels. Fourth quarter 2014 charges to income for environmental investigatory and remedial activities were \$1.9 million, which includes \$1.4 million of pre-tax recoveries of costs incurred and expensed in prior periods.

Without these recoveries, charges to income for environmental investigatory and remedial activities would have been \$3.3 million in the fourth quarter of 2014 compared to \$5.3 million in the fourth quarter of 2013. These charges relate primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites.

Full-year 2014 charges to income for environmental, investigatory, and remedial activities were \$8.2 million, which includes \$1.4 million of recoveries from third parties of costs incurred and expensed in prior periods. 2015 expenses for environmental, investigatory, and remedial activities are forecast to be in the \$15 million to \$20 million range and we are not forecasting any recovery in 2015 of environmental, investigatory, and remedial costs incurred and expensed in prior periods.

On a total Company basis, defined benefit pension plan income was \$6.1 million in the fourth quarter of 2014 compared to \$5.2 million in the fourth quarter of 2013.

The Society of Actuaries finalized a new set of mortality tables in October of 2014. Mortality is a key assumption in developing actuarial estimates. These mortality tables impacted the valuation of Olin's pension and other post-retirement benefit obligation liabilities by approximately 5%.

As a result of the new mortality tables, we expect 2015 defined benefit pension plan income to be approximately 7% -- I'm sorry. \$7 million lower than 2014. We did not make any cash contributions to our domestic defined benefit pension plan in 2014. And we will not be required to make any cash contributions to our domestic defined benefit pension plan in 2015. During 2014, we did contribute approximately \$1 million to our Canadian benefit pension plan and expect to make a similar cash contribution in 2015.

During the fourth quarter of 2014, Olin recorded a pre-tax restructuring charge of \$11.2 million. This included a \$10 million restructuring charge associated with permanently closing a portion of the Becancour, Canada, chlor alkali facility. The Becancour restructuring charge included \$3 million of non-cash fixed asset write-offs.

During the fourth quarter of 2014, we completed the restructuring projects related to exiting the use of mercury cell technology in the chlor alkali manufacturing process. We currently expect that pre-tax restructuring charges of approximately \$6 million will be recorded in 2015 related to the ongoing relocation of the Winchester centerfire munition manufacturing operations from East Alton, Illinois, to Oxford, Mississippi, and the closure of our portion of the Becancour chlor alkali facility.

The effective tax rate from continuing operations in the fourth quarter of 2014 was 34%. And for the full year, the cash tax rate was approximately 19%. In 2015, we currently believe that the effective tax rate will be in the 35% to 37% range.

On January 23, Olin's Board of Directors declared a dividend of \$0.20 per share on each share of Olin common stock. The dividend is payable on March 10, 2015, to shareholders of record at the close of business on February 10, 2015. This is the 353rd 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 can cause actual results to differ are described without limitation 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 on our website in the investor section under Calendar of Events. The 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.

Sabina Chatterjee - Wells Fargo Securities, LLC - Analyst

Good morning. It's Sabina Chatterjee in for Frank today. Regarding your commentary on Chlor Alkali having reached the trough of the cycle, with chlorine now leading increases, can you just give us a little more color on what you're seeing in the marketplace, maybe in terms of supply and demand from various end markets?

John McIntosh - Olin Corporation - SVP, Chemicals

Sabina, this is John McIntosh. Our system, from a chlorine standpoint, is tight. Even though early in the fourth quarter, we saw some customers destocking inventory, we've seen recovery in a lot of the market segments, chlorine-consuming market segments, as we entered into the first quarter.

And we really believe that that recovery of demand and the expected 4% or 5% capacity -- industry capacity that will be out of service for maintenance turnarounds in the months of February and March is going to create a supply and demand balance that leading into the Spring and the beginning of seasonal chlorine demands is going to be an attractive backdrop for us.

And we believe that at that point in time, we'll see everyone else in this similar position we're in, with real tight supply and demand balances. So that's the basis for our forecast of continuing improving dynamics on the chlorine molecule.

Sabina Chatterjee - Wells Fargo Securities, LLC - Analyst

Okay. And then with the Becancour closure, you've taken out about 9% of capacity. How much of that volume would you say is lost business versus spread across the existing asset base? And have you factored that into your 80% operating rate for 2015?

John McIntosh - Olin Corporation - SVP, Chemicals

There is no lost sales associated with that capacity. When we look at our operating rate forecast for the coming year, we expect to be operating in the high 80s for the entire year of 2015 and that's consistent with the capacity that we currently have employed.

The capacity we took out of Becancour was really swing capacity for us and we took it out. And so now we are in a position where we are able to operate all of our facilities at high operating rates, which is the most efficient situation for any chlor alkali producer to be in.



Sabina Chatterjee - Wells Fargo Securities, LLC - Analyst

Okay, terrific. Thank you.

Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - Sidoti & Company - Analyst

I was hoping you might offer a little bit more color on the confidence that you have on the pricing environment for chlor alkali and the timing there? It's been a while since we've seen chlorine price increases. So is that similar as far as the timing for you as caustic soda price increases that you have had in the recent past?

John McIntosh - Olin Corporation - SVP, Chemicals

I'll add one other comment to what -- to the answer I just gave to the previous question. 2014 total production for chlor alkali was as high as the industry had seen since 2008. So we believe that we are at the end point of a trough and that we'll see 2015 start the recovery.

We believe it will be a chlorine-led recovery, which is traditional when you look at recoveries from past troughs in our industry. However, there is an alternative scenario, which some people believe might be likely, based on the change in oil pricing. And that is that the change in oil pricing will really put pressure on exporting chlorine derivatives from the US. And if that happens, we believe we'll see caustic supply be under pressure, which we believe would facilitate improvements in caustic pricing.

So we believe we are in a position where, depending upon how 2015 plays out, we will have pricing leverage on one part of the molecule or the other.

Christopher Butler - Sidoti & Company - Analyst

Thanks. And with the oil prices down, could you talk about hydrochloric acid and your thoughts on that part of the molecule as we look to 2015?

John McIntosh - Olin Corporation - SVP, Chemicals

I can. When we look at demand across all the segments, oil being one of them, oil sticks out as the one in which there is some reduction in demand. We've seen a reduction in rig counts, but I think it's important to understand that in the HCl into the oil patch market segment, not all of the shale plays are created equal. There are some that have much higher costs to extract than others.

We believe that the shale plays that we are concentrated and focused on based on the locations of our plants, and the oilfield services companies that we are working with, are the more competitive, lower-priced -- lower-priced to extract plays that exist.

So while we understand that oil pricing will tend to dull the demand in this segment, we don't think it will be anything significant. And we believe that if you look across the other demand segments for HCl -- food and others -- that they continue to be strong.

So that's one side of the equation. On the supply side of the equation, we continue to believe that supply or over-capacity is not a phenomenon we're going to see, at least through the first quarter.



The by-product production facilities have not really started up. There are still outages that are putting a dampening impact on by-product supply. Some of the HCl burners that were scheduled to come online in the early part of 2015 have been announced so that they're delayed. So on the supply side, we don't see negative impact as well as we look into the first half of the year.

Christopher Butler - *Sidoti & Company - Analyst*

And just finally with the increase in capital spending, I know that you are shifting to bleach production at Becancour. Is there anything else that you're planning on doing in 2015 that has that number up?

John Fischer - *Olin Corporation - President & COO*

No. There's continued spending on Oxford as we wrap that up. And there's a little bit of debottlenecking around some of the HCl and bleach in the chlor alkali system. And other than that, it's more standard maintenance level of spending.

Christopher Butler - *Sidoti & Company - Analyst*

All right. Appreciate your time.

Operator

Herb Hardt, Monness

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

Thank you. Could you give us an idea of the percentage of production in chlorine and caustic that's gone into your upgraded products now? And what do you expect it to be a year from now?

John Fischer - *Olin Corporation - President & COO*

I think in 2014, about between 20% and 25% of our chlorine went into the co-products. And we've talked historically that we have an objective to get that up to between 30% and 35%.

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

And would you reach that by the end of this year?

John Fischer - *Olin Corporation - President & COO*

I would say that's probably not likely. It would probably be in 2016.

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

Okay. Thank you.



Operator

Don Carson, Susquehanna Financial.

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

Thank you. Okay, I want to go back to your view of the cycle, John. You mentioned that you see the molecule going up in either scenario. But would it be fair to say that a stronger and tighter caustic market is better for Olin?

John McIntosh - *Olin Corporation - SVP, Chemicals*

Well, we've always said that as a merchant caustic player, that we are better served when caustic is tight. But as we continue -- that was a comment that was true and historically and still to some extent is true.

But what's moderated that a little bit, Don, I believe, is as we move more and more chlorine into co-products, which, in all cases, are really premiums to what we would sell chlorine at if we were selling it in the merchant market.

We've made ourselves less concerned about which molecule is strong. Because we have the ability to participate in value-added chlorine derivative products and we have the historical base of caustic volume that we sell into. We are comfortable in either situation.

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

Okay. And then switching to Winchester. Just a question on the backlog and how firm it is. Back when you had the -- those \$400 million backlogs, did any of that disappear because it was double ordering or were those all good, good orders? And what does that imply for the quality of the backlog today?

John Fischer - *Olin Corporation - President & COO*

I think ultimately, most of that backlog became good backlog, Don. And I think the backlog we're looking at today as we analyze it looks like good backlog. I can never guarantee you that somebody isn't going to come in and change an order down or up, but generally speaking, the backlog looks deliverable.

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

All right. Thank you.

Operator

Jason Freuchtel, SunTrust Robinson Humphrey.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

How much of the caustic and chlorine price increases are included in your 2015 EBITDA guidance? And can you also provide some greater detail on what will drive operating costs higher in the Chlor Alkali segment in 2015?

John McIntosh - *Olin Corporation - SVP, Chemicals*

I believe our cost comment was relative to the first quarter. And we have some shutdowns -- shutdown costs in the first quarter that we didn't have in the fourth quarter. And that's the cost delta that we were referring to.

In terms of pricing that we have forecast in our numbers, we don't typically comment on what we expect to see. We do expect to see improvement in chlorine and caustic pricing and improvement in the overall ECU as we compare 2015 with 2014 actual results.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. And how have chlor alkali plant outages in Europe impacted domestic demand and pricing that you're seeing? And how would the industry domestic demand and supply environment be impacted if the West Coast ports went through with a shut down?

John McIntosh - *Olin Corporation - SVP, Chemicals*

The first question about Europe, let me speak to that. What we have seen is that caustic, although caustic is looked at globally, it's also looked at regionally. And one of the areas where caustic pricing has been the strongest has really been in the Northeast -- northeast coast of the US. And that is driven almost entirely by the fact that what's gone on in Europe's chlor alkali industry has really been a situation in which there isn't caustic to export from Europe to North America.

So that's created a situation where pricing in the US Northeast has been more positive than maybe it's been in some other regions.

So we have seen that impact and we have seen some regional price strength because of that. It hasn't translated to necessarily the other regions, because import or exports from the Far East to the West Coast continue.

And I don't know that I have a comment to make on the strike comment about the West Coast. I think typically, the ports that typically serve us bulk caustic -- bulk chemical, the imports are not always the same ports that are tied up with these huge container ships. But I just don't really know how to answer that question without doing more study.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. And then turning to Winchester briefly, can you explain the shift in Winchester demand throughout 2015? It sounds like ammunition demand for 1Q 2015 may be weaker year-over-year, but demand in the second half will actually be better than an environment in 2014 that was experiencing normalizing demand patterns. Is that the case?

John Fischer - *Olin Corporation - President & COO*

I think you've got a scenario where you had the business filling up inventory or replenishing inventory. That is virtually complete at this point in time. And now we're going to go back to a more typical seasonal demand pattern, which would suggest that the second half of the year would be stronger. And we do expect, as we've said, there is continuing growth in this business.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And then lastly, how should we think about cost savings from closing your Becancour facility?



John Fischer - *Olin Corporation - President & COO*

I don't think we've commented on that at this point in time. I think what we've essentially said is that we right size the business for the geography in which it operates and the plant is going to be focused on bleach and hydrochloric acid.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, great. Thank you.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

I just wanted to go back to the guidance a little bit and tie it back with the first quarter. So if I go through the numbers, it looks like you're going to be around \$0.20, \$0.25 in the first quarter. And then 2015 looks like it's going to be a little bit like 2014. And so -- are you guys calling for a much stronger back half?

And similarly, if I go through the ECU realizations to get to -- you did about \$505 million or so in 2014. Would you say that that should be materially higher in 2015 and that's why you're saying that you've reached a bottom and the cycle should be up from here?

John Fischer - *Olin Corporation - President & COO*

I think there's two driving factors about the way we see the year unfolding. One is the comments that were made about ECU pricing, where we expect them to improve sequentially coming out of Q4. And that we think, as John said, there is positive momentum for pricing throughout the year.

And then the comments we just made on Winchester, where we think we are really looking at the low point at the front end of the year and we see improvement as we move through the year.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. And then just so I'm completely clear on this, because there wasn't a \$25 or so realization in caustic the fourth quarter, do you expect any of that to come through in the first quarter? And if not, how many more price increases do you think would be announced in the coming months in order to get these prices through?

John Fischer - *Olin Corporation - President & COO*

We said that there was \$30 of caustic price increases cumulatively, recognizing the index in Q4 that we said would benefit us in the first and second quarters of 2015.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. So I guess most of that is in the second quarter and that's why your -- that combined with the low Winchester guidance in the first quarter is why you see earnings improving through the year?

John Fischer - *Olin Corporation - President & COO*

Yes, we expect to see some realization of the caustic in Q1, but the majority in Q2. So your comment is right.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. And then the reason I'm asking is because it sounds like there has been some pressure on export markets in caustic. Are you seeing that? I know it's less of your volume, but are you seeing that?

And then secondarily, I'm also struggling with the fact that your costs will likely be lower because of lower operating costs. I know that natural gas isn't a large part of your system, but I'm just curious as to why that's not a bigger benefit for you guys. Thanks.

John McIntosh - *Olin Corporation - SVP, Chemicals*

On the caustic export market, it's not a big market that we participate in. But when you look nationally and you look at numbers through the end of November, which is the latest numbers we have, in aggregate, 2014 looks a lot like 2013 did, in which net caustic imports were about 1.5 million tons. That's comprised of about 2 million tons of exports and about 0.5 million tons of imports.

So the US continues to be on a 2014 compared to 2013 a net exporter of 1.5 million tons of caustic. We don't see that trend changing in the future. As a matter of fact, some of the volume that typically originated in Europe and found its way into South America may be volume that is picked up logically by US shipments. So if anything, the bias would be towards that net number being higher.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. And then anything on the cost side you could help us with?

John McIntosh - *Olin Corporation - SVP, Chemicals*

I've mentioned that we had a turnaround in the first quarter and that was a comparison of costs from Q4 2014 to Q1 2015, but that's the only comment we've made about costs.

Arun Viswanathan - *RBC Capital Markets - Analyst*

So outside of the turnaround, would you expect your operating costs to be lower on lower energy prices?

John Fischer - *Olin Corporation - President & COO*

We have not made a comment around energy, other than that we've said we are not -- our system is not fully exposed to gas like many of the Gulf Coast producers.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Right. Okay, thanks.

Operator

Edlain Rodriguez, UBS.

Edlain Rodriguez - UBS - Analyst

Thank you. Good morning, guys. Joe, quick question for you. You talk about being interested in strategic acquisitions. So besides the one big assets that's out there from Dow, are there other assets available that you might be interested in that could fit into your portfolio? I mean, essentially, where are you seeing opportunities for strategic acquisitions?

Joseph Rupp - Olin Corporation - Chairman & CEO

There are other assets available that we would have an interest in.

Edlain Rodriguez - UBS - Analyst

Okay, that's clear. And just one quick question on caustic soda prices. We've had some increases in November, December and then the market seems to have stalled a little bit. But you seem to be -- I mean, IHS is looking at prices flattish to down going forward as chlorine prices go up, but you seem to think that caustic prices can go up. How confident are you that could be the case and where could IHS be wrong?

John McIntosh - Olin Corporation - SVP, Chemicals

I think that is not fair to say that we believe both prices -- caustic -- prices on both molecules are going up. We believe that a typical chlorine-led recovery coming out of a chlor alkali industry trough is one in which chlorine pricing leads -- at least initially, there is pressure on caustic pricing because of the improved operating rates.

And we are not advocating a position where you would see price improvements in that kind of an environment on both molecules.

Edlain Rodriguez - UBS - Analyst

Okay. That's what I thought. Thank you very much.

Operator

John Roberts, UBS.

John Roberts - UBS - Analyst

Overseas chlor alkali producers have power based on oil. It sounds like you don't think lower oil prices will allow them to be more competitive in some of the export markets. I'm curious as to why that would be.

John McIntosh - Olin Corporation - SVP, Chemicals

The perspective I have on that is yes, they will be -- their competitive position will be improved because of electricity pricing. But I honestly believe that when you look at Europe, there has been and will continue to be capacity rationalization as the European mercury cell component of their chlor alkali industry is rationalized or is converted.



And that's going to really reduce the amount of product that the European community has to export, even at an improved competitive position. Because they still have the freight cost of moving it somewhere and that doesn't offset that improvement in their overall cost position.

We believe that the Asian economies will see also some improvement in their operating costs, but they're currently operating, in some cases, below an acceptable return number. And we believe that at least in some of those economies, they are not going to be transformed just because of lower oil prices on some temporary basis into being able to take advantage of that by exporting to other markets.

John Roberts - *UBS - Analyst*

Thank you.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

A couple of quick questions. First of all, just out of [pure] curiosity, your chlorine shipments were down -- I think you said 7% year-over-year -- and your caustic was flat. I think you are using between potassium hydroxide and hydrochloric acid and bleach roughly the same amount of chlorine and caustic.

So where did you get the extra caustic from? Since your chlorine -- I'm assuming you run your plants to chlorine demand. So it would sound like it would be down as well as chlorine?

John Fischer - *Olin Corporation - President & COO*

The one big change, Dmitry, was we talked about the increase year-over-year in hydrochloric acid, which liberates caustic. And the other is just simply a change in inventory position on caustic.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, okay. Got it. Secondly, your Winchester projections for 2015, where you expect flattish profits year-over-year, is I would say significantly better than what you were intimating the post-surge performance of Winchester can be.

Are we not officially in the post-surge environment yet and there's still some benefit or is the improvements in the market that took place during the surge allows you to believe that sort of post-surge fundamentals will be much stronger than you previously expected?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

The post-surge fundamentals will be stronger than what we previously expected.

Dmitry Silversteyn - *Longbow Research - Analyst*

Fair enough. With that segue, there has been some talk and you address this on a couple of occasions of potentially or thinking about or contemplating potentially monetizing the Winchester asset, given the higher profitability level, which, theoretically, at least makes it a more viable standalone entity. Are there any changes in your thought process or timing or sort of outlook for this business?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

No. As we've stated before, that is an option and something that naturally, we have evaluated on a regular basis.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. But no updates on any timing or any decision getting close?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

No, Dmitry.

Dmitry Silversteyn - *Longbow Research - Analyst*

All right. And one final question. Your bleach volumes were up about 2% year-over-year. You continue to express a lot of confidence in bleach growth and certainly in the market penetration phase, I would expect you to continue to do better.

Was there anything specific about 2014 that caused the volumes of bleach to slow down? Were you capacity constrained at any point or was it weather impact or?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Weather was a big impact last year.

Dmitry Silversteyn - *Longbow Research - Analyst*

In 2014?

John Fischer - *Olin Corporation - President & COO*

We were not capacity constrained. The issue in 2014 was weather in the first half of the year and total bleach demand that we could service.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So basically, the cold weather in the first half of the year, which, with the ponds freezing, you don't need to -- did this in fact that -- it affected the whole year for you, at the end of the day. And then you don't expect that to happen, obviously, in 2015.

John McIntosh - *Olin Corporation - SVP, Chemicals*

We are expecting a more normalized pattern for bleach consumption in 2015.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, very good. That's all the questions I have. Thank you very much.



Operator

Richard O'Reilly, Revere Associates.

Richard O'Reilly - *Revere Associates - Analyst*

Can you discuss the other corporate and allocated cost line? An outlook for 2015 on it, because the other sub-segment line items are going to be negative for you. Can you talk about that other corporate line?

Todd Slater - *Olin Corporation - VP & CFO*

As I think we've said, we expect environmental costs to be \$15 million to \$20 million. Pension income to be of \$7 million lower. And I think we've said in our remarks -- SG&A for 2015 full year will be similar to 2013. I would take that as a proxy for what we would expect for that corporate and other line for 2015.

Richard O'Reilly - *Revere Associates - Analyst*

Okay, fine. Okay. And in my press release for the outlook for the first quarter, it says Winchester should be slightly lower than the first quarter 2013 level. Is that right?

John Fischer - *Olin Corporation - President & COO*

That's correct.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

That's right.

Richard O'Reilly - *Revere Associates - Analyst*

That's correct. Okay, fine. And the last question, this is the tongue and cheek. In your outlook for the full year of 2015, can I get you to define what you mean by meaningful year-over-year improvement in the chlorine business?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Well meaningful means measurable.

Richard O'Reilly - *Revere Associates - Analyst*

Okay, good. Okay, that helps. Thank you, guys.

Operator

Owen Douglas, Baird.



Owen Douglas - *Robert W. Baird & Company, Inc. - Analyst*

Thanks for taking my question here. Just wanted to drill down a little bit more on some of your comments regarding the investments and any acquisitions. Just wanted to better understand what sort of a profile do you think would fit in with your business?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

We've often stated that further downstream, more bleach, more [viability] from hydrochloric acid, more potential distribution strategically located. And there are several smaller chlor alkali producers who would make sense for us. So those would be the areas that we would be looking at.

Owen Douglas - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And as far as that goes, is this a view to (inaudible) sort of speculated a bit about the Winchester ammunition, there being a bit of a sale in that business. Could that possibly be a use of proceeds or is there a view towards raising additional capital?

Because just sort of going through some back-of-the-envelope numbers here, it sounds as though there's going to be ballpark \$50 million, \$100 million, let's call it, of cash flow that could be used to make these investments. Are we looking at bigger number here, where you guys may need to raise additional financing, or could there be some recycling of capital?

John Fischer - *Olin Corporation - President & COO*

I think that there's a pretty broad spectrum of what could happen there. I don't think, as we think about strategic investments like that, we think about Winchester generally as a source of funds. I think what we've said historically is if there was a large transformational chlor alkali type of transaction, we would consider it.

But again, we haven't committed ourselves to doing anything with Winchester. We've talked in the past, we have as virtue of owning it for 120-plus years, we've got a very low tax basis. A sale of Winchester for cash could be problematic.

Owen Douglas - *Robert W. Baird & Company, Inc. - Analyst*

Understood, understood. Okay, so that would require a bit more of a creative financing structure there in order to make that appealing to you, I guess.

Okay and finally on the Chemical Distribution business, so if you wouldn't mind, walk me through how exactly you can see sort of having the EBITDA levels double in the coming years? What are some of the puts and takes? Do you need to see a bit of a less competitive environment in that segment or is that more of a GDP growth-type scenario? Can you help me understand what are some of the swing factors that could help you guys double the EBITDA in that segment?

John Fischer - *Olin Corporation - President & COO*

The biggest element of that growth is what we talked about when we made the acquisition, which was our goal was to move more of the Olin-produced products -- potassium hydroxide, HCl, and bleach -- through their system. And that for us is simply an issue of execution. Getting the tanks, getting the customers, selling the product. Because we can certainly make it.

John McIntosh - *Olin Corporation - SVP, Chemicals*

On the caustic side, our improvements are predicated on the caustic side by growing volumes and margins. And we believe that we can do that by looking at different geographies where we don't participate now and we can look at accomplishing that just by execution on that side of the business as well.

Owen Douglas - *Robert W. Baird & Company, Inc. - Analyst*

Okay, thanks. That's all for me.

Operator

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

Joseph Rupp - *Olin Corporation - Chairman & CEO*

We just want to thank you for joining us today and we look forward to talking with you again in April when we announced the first quarter results of 2015. Thank you.

Operator

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

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