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OLN - Q4 2015 Olin Corp Earnings Call

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OVERVIEW:

Co. reported 4Q15 sales of approx. $1.3b and loss from continuing operations of $59.3m or $0.37 per diluted share. Expects 2016 revenues to be in $6b range.

CORPORATE PARTICIPANTS

Joseph Rupp *Olin Corporation - Chairman & CEO*

John Fischer *Olin Corporation - President & COO*

Todd Slater *Olin Corporation - VP & CFO*

John McIntosh *Olin Corporation - Executive VP & President*

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Matt Skowronski *Longbow Research - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Olin Corporation Fourth Quarter Earnings Conference Call.

(Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to Joseph Rupp, Chairman and CEO. Please go ahead.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Good morning, thanks for joining us today. With me this morning are John Fischer, President and Chief Operating Officer; John McIntosh, Executive Vice President and President Chemicals and Ammunition; Todd Slater, Vice President and Chief Financial Officer; and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations.

Last night we announced that adjusted EBITDA in the fourth quarter of 2015 was $207 million. Adjusted EBITDA reflects depreciation and amortization expense of $124 million, acquisition-related costs of $84.6 million and $24 million of fair value adjustment related to the purchase accounting for inventory.

The fourth quarter loss from continuing operations was $59.3 million or $0.37 per diluted share. The fourth quarter loss per share includes an effective income tax rate of approximately 28% which reflects transaction costs that are not deductible for income tax purposes. Sales in the fourth quarter of 2015 were approximately $1.3 billion.

As we enter 2016 we forecast adjusted EBITDA in the range of $915 million to $985 million. Our new less cyclical portfolio includes the benefits of our long-term contracts with Dow, improved year-over-year results in Epoxy and Winchester and the realization of cost synergies.

Improvement in chlor alkali products pricing from current levels represents an upside to our 2016 forecast. To put our 2016 full-year EBITDA guidance into perspective, I'll compare to the pro forma 2014 EBITDA that was included in our form S-4 that was filed as a part of our merger agreement. That EBITDA was $962 million.

Looking at 2016, there's four significant changes that reduce expected EBITDA. In order of significance these are: lower caustic soda prices; lower EDC prices; weaker chlorinated organic sales, especially for refrigerants; and weaker hydrochloric acid prices and volumes.

As we look at 2016, these negatives are forecast to be offset, again in order of significance: by improved results in the Epoxy business; by the realization of synergies; and by lower natural gas costs. The combination of both the negative and positive changes from the 2014 pro forma EBITDA illustrates the benefits of Olin's new broader and less cyclical portfolio.

I'd like to make a comment regarding revenue. We expect 2016 revenue to be in the $6 billion range. Two of the key raw materials consumed by our Epoxy business, in addition to chlorine and caustic, are propylene and benzene. Prices of these two raw materials reflect the price of crude oil. To protect the business, certain contracts in Epoxy provide for changes in propylene and benzene costs to be passed through to customers.

In concert with the decline in oil prices over the past 18 to 24 months, the Epoxy business has experienced reduced revenue. The revenue reduction from 2014 to 2016 is forecast to translate into a consolidated 2016 revenue forecast in the $6 billion range compared to the pro forma $7 billion.

Our integration is going very well. The synergy capture teams continue to refine and implement projects that will allow us to exceed our targeted goals. In a weaker chlor alkali and vinyls segment the new Olin is able to deliver $915 million to $985 million in EBITDA and is well-positioned to benefit from any upside in the economy.

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

John Fischer *- Olin Corporation - President & COO*

Thank you, Joe. First I'd like to discuss our first quarter 2016 guidance and provide a description of the key changes from the actual results we experienced in the fourth quarter of 2015. At the business level we expect Winchester's first quarter 2016 earnings to improve compared to both the fourth quarter of 2015 and the first quarter of 2015.

We expect earnings in the Chlor Alkali Products and Vinyls segment to improve in the first quarter 2016 compared to the fourth quarter 2015. And first quarter 2016 adjusted EBITDA in the Epoxy business is forecast to be similar to the fourth quarter of 2015.

These improved operating results will be offset by two factors. During the first quarter of 2016 costs associated with planned maintenance outages are forecast to be approximately $20 million higher than fourth quarter 2015. First quarter 2016 planned maintenance outage spending is expected to represent approximately 35% of the full-year 2016 spending.

And we also forecast that 65% to 70% of the total 2016 spending will occur in the first two quarters of 2016. This spending pattern is typical of the acquired Gulf Coast plants and the need to coordinate outages with our large pipeline customer, Dow.

First quarter 2016 corporate and other expenses are forecast to increase approximately $15 million compared to the fourth quarter 2015 level and be consistent with our full-year forecasted expense of $65 million to $85 million. The sequential increase reflects expenses and legal fees associated with the legacy Olin environmental and litigation liabilities of approximately $5 million, a lower level of pension income of approximately $2 million and the combination of employee compensation expense and contract service expenses of approximately $8 million.

These reflect the continued build-out of Olin's corporate office capabilities to service the new larger Company. These changes equate to a full-year increase in corporate and other expense of approximately $25 million compared to the average corporate and other expense we have incurred over the past five years.

Now turning to the individual businesses, beginning with Chlor Alkali Products and Vinyls. During the fourth quarter of 2015, Chlor Alkali Products and Vinyls generated adjusted EBITDA of $150.6 million which includes depreciation and amortization expense of $97.3 million and a fair value adjustment related to the purchase accounting for inventory of $6.7 million.

We expect the Chlor Alkali Products and Vinyls business to improve in the first quarter of 2016 compared to the fourth quarter of 2015, driven by improved caustic soda pricing and increased sales volumes across the chlorine envelope. These improvements will be partially offset by increased maintenance turnaround of expenses of approximately $10 million.

Through the end of the fourth quarter, the caustic soda price indices had increased $43 per ton. This increase reflects the $65 per ton increases announced in August of 2015. A portion of this increase was realized in the fourth quarter of 2015 with the balance to be realized in the first quarter of 2016.

We are forecasting sequential improvement in our caustic soda netback in the $10 to $15 per ton range in the first quarter. Based on the downward movement in the January caustic soda price indices, we do not expect a second $40 per ton price increase announced in November to be successful in the first quarter.

Over the course of 2016, we do expect our caustic soda realizations to improve as we optimize the customer mix across the legacy Olin chlor alkali, Olin distribution and the acquired chlor alkali portfolios. This includes caustic soda which is exported from North America, representing approximately 8% to 10% of the total caustic soda sold to non-Dow third parties by Olin.

The Chlor Alkali Products and Vinyls segments includes the majority of Olin's sales to Dow. These sales are predominately made up of chlorine, caustic soda cell effluent and vinyl chloride monomer. The sales are executed under long-term contracts which have a minimum term of seven years from the date of the acquisition and contain both minimum and maximum quantities. The contracts are also cost-based and as a result provide Olin with a consistent predictable EBITDA flow.

The Chlor Alkali Products and Vinyls segment also includes the sale of ethylene dichloride. During the fourth quarter of 2015, 100% of the EDC produced was exported. The fourth quarter 2015 EDC netback declined approximately 47% compared to the third quarter of 2015 EDC netback and was approximately 30% lower than the average price experienced in 2015.

Since EDC experienced a challenging pricing environment in the fourth quarter, we were able to shift chlorine production to other more value-added products in our chlorine envelope during the quarter. We have seen pricing improvements for export EDC shipments in early 2016 and we do expect first quarter 2016 EDC pricing and volumes to improve compared to the fourth quarter of 2015. First quarter 2016 chlorinated organic sales are expected to improve from the seasonally weak fourth quarter, driven by sales to refrigerant producers.

Merchant chlorine volumes are expected to improve sequentially in the first quarter of 2016 compared to the fourth quarter. Chlorine pricing indices improved in the fourth quarter of 2015 by $10 per ton. And as a result, the first quarter 2016 chlorine netbacks are forecast to improve compared to the fourth quarter of 2015.

Hydrochloric acid pricing and volumes declined throughout 2015 which contributed to an approximately $15 million decline in 2015 EBITDA compared to 2014. We expect first quarter 2016 hydrochloric acid volumes and pricing to be comparable to the fourth quarter 2015 levels. Olin does continue to be able to sell hydrochloric acid at a premium price compared to chlorine.

Now turning to Epoxy. During the fourth quarter of 2015 the Epoxy business generated adjusted EBITDA of $30.7 million which includes depreciation and amortization expense of $20.9 million and a fair value adjustment related to purchase accounting for inventory of $17.3 million. We expect first quarter 2016 Epoxy adjusted EBITDA to be comparable with the fourth quarter of 2015, driven by improved volumes across all product lines which will be offset by increased maintenance turnaround expenses.

We expect the Epoxy business to continue to improve during 2016, driven by volume growth and we expect to see the majority of this growth occur in the second half of the year. This volume growth reflects the benefits of key initiatives that are already in place.

In addition to the EBITDA generated directly by the business, the Epoxy business provides additional benefits to Olin by consuming significant quantities of chlorine which liberates caustic soda. The majority of the Epoxy revenue is generated in North America and Europe. The majority of Olin's international revenue is generated by the Epoxy business.

Less than 10% of the forecasted 2016 Epoxy revenue is expected to be generated in China. As a result, less than 5% of total Olin 2016 expected sales are forecast to be generated in China.

Now I'd like to discuss synergies for a moment. Our synergy efforts are focused on the three broad objectives of optimizing the efficient use of the acquired low cost assets at Freeport and Plaquemine; optimizing the new Olin system to reduce total costs; and expanding downstream capacity for co-products such as bleach and hydrochloric acid and expanding sales into new geographies.

We've made significant progress in several of these areas. Specifically, chlorine shipments out of the Freeport facility began in the fourth quarter. Caustic soda shipments to legacy Dow customers from legacy Olin facilities also began in the fourth quarter. Chlorine shipments out of the Plaquemine facility are expected to begin in the second quarter of 2016. And bleach shipments out of the Freeport facility are expected to begin in the fourth quarter of 2016.

In addition, we continue to analyze chlor alkali production capacity and expect to announce plant and capacity reductions in early March. At this point we expect the capacity curtailment to be at the high end of the 250,000 ton to 450,000 ton range we had previously announced and a total of approximately 60,000 of those tons has already been idled. It is also expected that the capacity curtailments will be completed at all locations no later than the end of the second quarter.

Based on the work that has been completed to date, we now estimate that the total cost synergy realized will reach $250 million by 2019, with an additional $100 million opportunity from revenue enhancement and growth projects. The increase in the estimate for cost synergies primarily reflects increased logistics and procurement opportunities.

I'd like to conclude with Winchester. During the fourth quarter of 2015, Winchester generated adjusted EBITDA of $26.7 million compared to $22.2 million in the fourth quarter of 2014. The 2015 fourth quarter results represent the second best fourth quarter results in the history of the business. In addition, the full year Winchester 2015 EBITDA of $133.3 million was the third best year Winchester has ever had.

After experiencing some slowing of demand late in the third quarter and early in the fourth quarter, the Winchester business experienced strong demand late in the fourth quarter. The late fourth quarter uptick in demand was especially pronounced in the pistol ammunition category.

Winchester has continued to see growth in its core commercial ammunition business. From 2009 through 2014, the number of target shooters has increased from 34 million to 51 million and we believe that growth continued in 2015. The majority of these new shooters are under the age of 35, and the majority of these shoot handguns. These are positive factors for the business as it moves forward.

Winchester continues to focus on cost reduction and in 2015 the annual savings from the Oxford relocation project reached $35 million. During the first half of 2016, the final rifle ammunition production equipment relocation will be completed and it is expected that the annual cost savings from this project could reach $40 million.

As Joe said earlier, we believe the 2016 Winchester earnings will improve compared to 2015, primarily as a result of the lower manufacturing costs, incremental savings from the Oxford relocation and improvement in volumes, partially offset by lower prices. Before I turn it over to Todd to begin discussing the financials, I would like to reiterate and convey the conviction that the Olin team has to achieving the 2016 EBITDA guidance that Joe described.

Todd Slater - *Olin Corporation - VP & CFO*

Thanks, John. First I'd like to discuss the balance sheet and the 2015 cash flow. We ended the year with cash and cash equivalents totaling $392 million and total debt of approximately $3.9 billion. During 2015 working capital employed decreased by proximally $29.7 million. The decrease primarily reflects the change in accounts receivable and accounts payable for the acquired businesses, principally representing converting Dow to a third-party transaction after the acquisition.

Capital spending in the fourth quarter of 2015 was $51.2 million and for the full year was $130.9 million. Depreciation and amortization expense during the fourth quarter was $124 million and for the full-year it was $228.9 million. Fourth quarter depreciation and amortization expense for the acquired businesses was approximately $188 million, including preliminary acquisitions step-up depreciation and amortization of approximately $35 million.

In 2016, we forecast that capital spending will be in the $300 million to $340 million range which includes $60 million of synergy-related capital spending. We continue to believe that the annual maintenance level of capital spending for the new Olin will be in the $225 million to $275 million range. Depreciation and amortization expense in 2016 is forecast to be in the $490 million to $500 million range, including step-up acquisition depreciation and amortization expense of approximately $145 million.

In conjunction with the acquisition, we issued a total of $2.2 billion of variable-rate term loan debt and a total of $1.2 billion in fixed-rate 8- and 10-year bonds. The term loans are repayable at any time without penalty. A portion of the proceeds of the new term loans were used to repay approximately $569 million of acquired debt and to refinance $146 million of legacy term loan debt. Olin also repaid $15 million of maturing debt in 2015.

We have approximately 60% variable rate debt in our new debt profile. As a result, we are estimating our first quarter 2016 interest rate will be in the 4.5% range.

During 2016, a total of approximately $205 million of debt will mature. This is expected to be repaid using available cash.

Our priorities of cash over the next two years are the payment of our quarterly dividend, funding of synergy capture and the repayment of debt. Our expectation is by the end of 2017 the combination of debt reduction and EBITDA growth will reduce the net debt EBITDA leverage ratio to the range of 2.5 to 3 times.

Now turning to the income statement. First a comment regarding our segment reporting. We modified our reportable segments to include the acquisition of Dow's chlorine products businesses. We have three operating segments: Chlor Alkali Products and Vinyls, Epoxies and Winchester. We also disclose corporate and other cost separately from our operating segments which is consistent with our historical practice.

Our former Olin Chlor Alkali Products and Olin Chemical Distribution segments have been included in their entirety in the new Chlor Alkali Products and Vinyls segments which also includes chlorinated organics. Chlorine used in our Epoxy business is transferred at cost from the Chlor Alkali Products and Vinyls segments. Sales and profits are recognized in the Chlor Alkali Products and Vinyls segment for all caustic soda generated and sold by Olin.

The fourth quarter of 2015 included acquisition-related costs of $84.6 million associated with change in control, mandatory accelerated expenses under deferred compensation plans, advisory, legal, accounting, integration and other professional fees. Interest expense included $10.8 million for incremental acquisition finance expenses associated with bridge financing.

During the first quarter of 2016 we expect to incur acquisition-related integration costs of approximately $10 million. In addition, for the full year of 2016 we expect to incur acquisition-related integration costs of approximately $40 million associated with outside consulting, professional fees and non-recurring personnel-related costs.

Full year 2016 expenses for environmental, investigatorial and remedial activities are expected to be in the $15 million to $20 million range. In 2016 we are not forecasting any recovery of environmental, investigatory and remedial costs incurred and expensed in prior periods. As reminder, in conjunction with the acquisition, Dow has retained liabilities relating to litigation, releases of hazardous materials and violations of environmental law to the extent arising prior to the acquisition.

As you are aware, we acquired approximately $285 million of net domestic qualified defined benefit pension plan liability from Dow and approximately $185 million of international pension liabilities. As a result, on a total Company basis, defined-benefit pension plan income was $10.3 million in the fourth quarter of 2015 compared to $6.1 million in the fourth quarter of 2014.

The fourth quarter 2015 pension income includes an actuarial change in the calculation of plan discount rates and the costs associated with these acquired plans. We are forecasting full-year 2016 defined benefit pension plan income will be approximately $10 million higher than 2015 as a result of these changes.

During 2015 we did not make cash contributions to our domestic defined benefit pension plan nor will we be required to make any cash contributions to our domestic pension plan in 2016. During 2015 we did contribute approximately $700,000 to our international defined benefit pension plans and we expect to contribute less than $5 million to these international plans in 2016. First quarter 2016 corporate and other costs are forecast to increase by approximately $10 million compared to the first quarter of 2015 due to the build-out of our corporate capabilities since the completion of the Dow transaction.

The effective tax rate in the fourth quarter of 2015 was 28.1%. The fourth quarter effective tax rate was adversely affected because a portion of our acquisition costs are not deductible for income tax purposes. This resulted in approximately $8 million of additional income tax expense in the fourth quarter.

In 2016, we currently believe that the book effective tax rate will be in the 35% to 38% range and the cash tax rate will be in the 25% to 30% range. Because of the Reverse Morris Trust nature of the transaction the acquisition fair value step-up depreciation and amortization expense is not deductible for tax purposes.

In December, the Protecting Americans from Tax Hikes Act of 2015 was signed into law. It extended accelerated depreciation deductions through 2019, also referred to as bonus depreciation. This new law lowered our cash tax rate from what we had previously forecast.

On January 29th, Olin's Board of Directors declared a dividend of $0.20 per share of Olin's common stock. The dividend is payable on March 10, 2016 to shareholders of record at the close of business on February 10, 2016. This is the 357th quarterly dividend paid by the Company.

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

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

Good morning, gentlemen.

Joe, nice start to the new Olin. You guys offered guidance Q4 of, I think, $185 million to $205 million in terms of EBITDA and you came in at $207 million. Just curious as to what went right as you got into the first quarter under the new Olin?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

I think a lot of things went right, Frank. I think we got ourselves positioned from a synergy perspective. More importantly, Winchester performed. We were able to get some pricing on caustic as we had talked about. And our Epoxy business continues to do better than it had prior to the acquisition. So we are pleased those are some of the positives.

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

All right, terrific. So just after four months of operating this new Company, you raised your synergy target by $50 million. Can you talk about the cadence that we should be thinking about in terms of the realization of that $250 million? I do understand that is a floor not a ceiling in terms of synergies.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

(laughter) That's correct. John Fischer will give you his cadence.

John Fischer - *Olin Corporation - President & COO*

We expect to realize between $40 million and $60 million of synergies in 2016. And we expect to exit 2016 with a run rate of $70 million a year. That would be the starting point for 2017. There are several projects, obviously, that take time and come on stream and what we said was we expect to be at the $250 million run rate by the beginning of 2019.

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

Okay, all right. So do we want to straight-line that, John?

John Fischer - *Olin Corporation - President & COO*

I think that's as good an estimate as anything at this point.

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

All right, terrific. Thanks so much and look forward to seeing you next week.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thank you Frank.

Operator

Jason Freuchtel of SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Hey, good morning.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Good morning.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

What was your expectation for 2016 turnaround costs when you provided EBITDA bridge to potential 2016 EBITDA last quarter?

John Fischer - *Olin Corporation - President & COO*

Our total expected turnaround costs for 2016 are in line with what our expectations were. What's a little bit different is the timing. More heavily loaded in the first half of the year.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Which is a little different than what we experienced as Olin.

John Fischer - *Olin Corporation - President & COO*

Right.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Driven by the interaction between Dow and Olin, so we have to coordinate those with the Dow plants.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. Do have a view on what chlor alkali operating rates were in China last quarter? And maybe where they are today?

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Joseph Rupp - *Olin Corporation - Chairman & CEO*

I think they are running in the low 74% somewhere in that range, in the low 70%s.

John McIntosh - *Olin Corporation - Executive VP & President*

And towards the end of the year they were even lower. 71% in the last quarter.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, so they are trending down. Do you expect that to result in an increase in caustic soda exports in the near-term? And is that sustainable in the first half of the year?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Jason, the exports from China and the United States are almost negligible. I think they were less than around 70,000 tons last year total into North America. So actually what happens if their operating rates would stay low, what we'd see is pricing power on the caustic side. And I think the spot prices out of China right now have bumped just a little bit. Not a lot, but a little bit, which doesn't hurt us at all.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, but would that potentially increase maybe a pull for export demand from other regions that you hadn't previously exported to, such as Australia?

John McIntosh - *Olin Corporation - Executive VP & President*

I don't think that's likely. US exports were at another record high in 2015 with net exports being 2 million-plus tons. So I would say that if Chinese operating rates stay that low, then their volume available for export is going to be reduced. And there won't necessarily be new places in the Far East that are exported to, but there will be increased quantities exported out of North America.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And I think you mentioned that the Epoxy business should improve on some key initiatives that are already in place. Can you expand on what those initiatives are? And what type of earnings contribution they could have on the business?

John Fischer - *Olin Corporation - President & COO*

I would just say that they represent business that has been booked to be delivered in 2016. And all we've said about Epoxies is we expect it to improve year over year, which would be -- it has been improving as we talk. And we expect it to continue to improve throughout the year.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay great, thank you.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thank you.

Operator

Don Carson of Susquehanna Financial.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you. Just wondering what your supply-demand outlook for chlor alkali in the US is this year. You indicated you will be at the high end of your closures of 450,000 tons that you announced previously. But we've seen some announced alumina closures as well. So how do you balance those two factors out? And were the alumina closures one of the factors that caused you to go to the high end of your range? And could you go even higher?

John McIntosh - *Olin Corporation - Executive VP & President*

There really was no connection there. We are doing our assessment based on what makes sense for our network of plants. There have been alumina closures announced, the potential caustic reduction because of that, depending upon which schedule you assume to be correct for 2016 could be in the 200,000, 225,000 tons of caustic.

Our assumption is with the strength of the export market that a fair amount of that will just be exported out of the US. I think another thing to bear in mind that gets lost sometimes in the analysis is that exports out of Europe continue to decrease. 2015 was the lowest year in the last three years.

A lot of that is being driven by capacity rationalization associated with mercury conversions over there. There is going to be in the not-so-distant future an opportunity for the US to export into Europe, as well as to the East. So the alumina announcements are not of a particular concern to us at this point.

Don Carson - *Susquehanna Financial Group - Analyst*

In your adjusted EBITDA guidance this year, what is the caustic price assumption? You mentioned the indices were up 43 in Q4, they're down 10 in January. Are you taking January prices and assuming that holds for the year?

John Fischer - *Olin Corporation - President & COO*

That's exactly what we are doing, Don.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. And then final question, I noticed a nice uptick in ammunition sales, courtesy of increased Democrat Rudder ground gun-control. What is the Winchester commercial backlog at year-end? Are you running into supply issues in terms of being able to satisfy all the demand out there?

John Fischer - *Olin Corporation - President & COO*

The backlog was about $205 million and at the moment we are not seeing any supply issues at this point.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay, thank you.

Operator

Aleksey Yefremov of Nomura Securities.

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

Good morning, thank you. Could you provide your assessment of why caustic soda prices went down in January? And why it wouldn't go down more in February and March, if that's your view?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Our view is what happened at the end of the year is that the Vinyls sector ran harder than everybody had originally anticipated. So as a consequence what happened is there was more caustic that was available and put the brakes on the momentum we had from a pricing perspective. I think as we get into more normalized first quarter, I think you'll see demand pick up enough that we like to think that we're going to be in a more stable situation in Q1.

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

Thank you and turning to epoxies, one of your competitors could potentially shut down there their epichlorohydrin capacity. If that happens, how do you see it impacting your own epi or epoxy business?

John Fischer - *Olin Corporation - President & COO*

I think as a general rule we don't comment on that. I think the only thing we would say is we believe that we have the low-cost assets for epi in North America.

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

Thank you very much.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

You're welcome.

Operator

John Roberts of UBS.

John Roberts - *UBS - Analyst*

Morning, guys, nice start.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Thank you.

John Roberts - *UBS - Analyst*

You've picked up, as you mentioned, some of the Dow pension liabilities. Are you still immunized with those additional liabilities? Or is there an interest rate sensitivity to the pension number that we are going to have to watch here?

John Fischer - *Olin Corporation - President & COO*

The place we were before we acquired those assets, we were well over-funded for ERISA purposes. So those fit into that over-funding that we had, so we are still in a place where we don't expect to have to make cash contributions. Other than we did acquire some overseas liabilities and those cash contributions are in the $1 to $2 million per year range.

John Roberts - *UBS - Analyst*

Wasn't asking a quick cash flow question, I was asking you an interest-rate sensitivity to the earnings effect.

John Fischer - *Olin Corporation - President & COO*

Not material, John.

John Roberts - *UBS - Analyst*

Okay. And then you made some comments about international. I know Winchester's all domestic, but for the Chemical portfolio now, what percentage of sales is international?

John Fischer - *Olin Corporation - President & COO*

About 20% of Olin in total is international.

John Roberts - *UBS - Analyst*

And that would all be essentially all in the chemical business?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Yes.

John Roberts - *UBS - Analyst*

Okay, thank you.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

You're welcome.

Operator

Arun Viswanathan of RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thanks. Good morning. To clarify, would it be safe to assume that your guidance includes $33 of pricing for 2016 on caustic?

John Fischer - *Olin Corporation - President & COO*

Could you say the question again? I'm sorry.

Arun Viswanathan - *RBC Capital Markets - Analyst*

You said that the indexes on caustic up $43 in Q4 and then down $10 in January. So would it be safe to assume that your $915 million to $985 million range includes $33 per ton of realized caustic increases?

John Fischer - *Olin Corporation - President & COO*

I think that usually a producer who is selling on index gets a yield of between 60% and 70% on an index change.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. And then, are you saying that there is not going to be a decline in February and March? And if there were, would that lead you to the low end of your guidance? Or how should we look at that?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

We are not expecting -- we think that volumes will be enough that we will be able to maintain pricing. Obviously that is something that is way beyond our control. If we were to start to see pricing decline, we wouldn't see it in the first quarter, we would start to see it in the second or third quarter, Arun.

John Fischer - *Olin Corporation - President & COO*

The other thing that we did say is that over the course of the year, we expect our realizations to improve as we optimize the customer mix across the legacy Olin Chlor Alkali, the legacy Olin Distribution and the Dow assets. That has the potential for us to keep us where we are even if there is a decline.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. So then to dig deeper here, are you -- maybe can help us understand what would get you to the low end of your guidance range. You said you had tremendous confidence in those numbers. So maybe you can help us understand what drives that.

John Fischer - *Olin Corporation - President & COO*

I would say two things. If we did see caustic pricing drop off another $20 to $40 and if we saw EDC pricing stay where it is today, that would take us to the low end.

Arun Viswanathan - *RBC Capital Markets - Analyst*

So caustic down $20 to $40 and then EDC flat, is what you said.

John Fischer - *Olin Corporation - President & COO*

Yes, flat with Q4.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay, got it. And then on the synergy side, you had given an early target that you had $80 million in footprint rationalization. Is that still the target? And then if you are doing $40 to $60 million in 2016, should we expect more footprint rationalization in 2017?

John Fischer - *Olin Corporation - President & COO*

I think I would like to differ the answer to that until next week when we intend to provide more guidance around specific buckets of synergies.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. And lastly on Winchester, do you see upside in 2016 driven from where you were in Q4?

John Fischer - *Olin Corporation - President & COO*

What we said was we expect Winchester's year-over-year results 2016 versus 2015 to be improved.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Got it, thank you.

Operator

Herb Hardt of Monness, Crespi, Hardt.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Hey, Herb.

Herb Hardt - *Monness, Crespi, Hardt & Company - Analyst*

Good morning. Can you give us an idea of what percent of your capacity was in bleach year-end and what it will be by the end of this year?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

About 4% probably

John Fischer - *Olin Corporation - President & COO*

Herb, I would like to do the math and get back to you on that. That's not a number we have at the tip of our fingertips.

Herb Hardt - *Monness, Crespi, Hardt & Company - Analyst*

Okay, thank you.

Operator

Edlain Rodriguez of UBS.

Edlain Rodriguez - *UBS - Analyst*

Thank you. Good morning. One quick question in terms of capacity closures. Clearly you are doing your part. Do you think that's enough for the industry? Or is it time for all the players to join you in doing the same for the industry to get better?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

I think what we've said is that the industry has capacity additions beginning in 2013 that came in on stream in 2014 that got us in an imbalance. And ultimately what has to happen is, since there is not enough demand, we are going to have to get rebalanced.

As you mentioned, I think we are doing the leadership role in taking capacity out to begin that process. I think that there is high cost capacity throughout North America that could be addressed. And hopefully will be.

Edlain Rodriguez - *UBS - Analyst*

That make sense, thank you much.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

You're welcome.

Operator

Roger Spitz of Bank of America Merrill Lynch.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Thank you and good morning.

First, would you provide DOW's DCP sales and EBITDA for the third quarter?

John Fischer - *Olin Corporation - President & COO*

We don't have that information.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

We are not trying to be smart alecs about it, we don't it. It is through Dow. Once the deal -- we just don't have it.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Okay. In terms of the epoxy, can you speak about how epoxy -- you don't have to give the numbers, you don't have some of the numbers -- but how the epoxy EBITDA probably moved over the four quarters of 2015 and what were the key drivers moving the epoxy?

John Fischer - *Olin Corporation - President & COO*

The epoxy business has essentially been in a recovery mode over the past two years. And the majority of the improvement that has been seen has occurred as market share that was lost has been regained.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

Taking advantage of the cost structure that we have.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Okay. We had heard from some others that epoxies in Europe has benefited from the weak euro, which was one key driver. And then raw materials falling is another key driver. Have you seen that in your epoxy business? Either of those or other drivers?

John Fischer - *Olin Corporation - President & COO*

In 2015 the epoxy business benefited from the decline in essentially benzene and propylene that provided some tailwind to the earnings of epoxy. I would also offer we don't expect that to repeat itself in 2016, and in spite of that we expect to improve.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Okay. And then lastly, on HCl, can you speak about how much -- what is the current uplift in HCl over chlorine? And you mentioned that HCl EBITDA in 2015 was down $15 million year over year. When you make that reference are you transferring the chlorine at market or cost?

John Fischer - *Olin Corporation - President & COO*

Essentially what we are talking about is what we sell HCl for compared to what we sell a unit of chlorine for. So we had a period of time in 2014 where HCl prices were up around $400 a ton. At the same time, merchant chlorine was about $200 a ton. HCl has dropped back to where, at some places, they are equivalent.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Okay and I take it the key driver on all this is fracking, is that right?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

That's what the driver in the decline in HCl. As we've talked about in the past, there's a broad range that HCl goes into. Food, pharma are two big pieces of it in other industrial applications. But it's the driver right now that's cut back the demand for HCl has really been driven by oil and gas for everybody.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Thank you very much.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

You're welcome.

Operator

Jason Freuchtel of SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Hi, yes. Just had a follow-up on the rationalization comment that is taking place in the industry. Did you say there's already capacity coming out of Europe in 2016 for the mercury cell regulation? Do you have an updated view on how much total capacity could come out of Europe to comply with that regulation?

Joseph Rupp - *Olin Corporation - Chairman & CEO*

There's, I think, close to 0.5 million tons of capacity that's been announced. There's 277,000 tons that was announced up in Great Britain, and this January 20th, I think it's 225,000 tons in Spain that's been announced that's going to go down and not be replaced.

John McIntosh - *Olin Corporation - Executive VP & President*

In the EU the total capacity for alkali is a little over 12 million tons. About 2.75 million tons of that was mercury when the sunset date of 2017 was established. The expectation is that out of that 2.75 million tons of mercury saw capacity that somewhere between 1.25 million and 1.5 million tons of that will not be reinvested and will come out. And so far, we are seeing announced closures that fit that kind of an end-result scenario.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay and how long after an announcement would it typically take for a closure to take place and then I guess also --

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Joseph Rupp - *Olin Corporation - Chairman & CEO*

Spain is occurring this year in 2016. And I'm not quite sure exactly if Runcorn's going down, I think it is going down this year, as well.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay, and I am assuming that it is going to take some time for the capacity that decides to convert to take place. How long a lead time would you expect to know how much capacity is going to convert?

John McIntosh - *Olin Corporation - Executive VP & President*

A typical project would be something around two years, depending upon how much infrastructure out of sight was reusable. So two years or less. We are getting to the point where the announcements of capacity that is going to be reinvested are going to have to be made or the projects won't be done in time to meet the sunset date.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay great, thank you.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

You're welcome.

Operator

Dmitry Silversteyn of Longbow Research.

Matt Skowronski - *Longbow Research - Analyst*

Morning. This is Matt Skowronski on for Dmitry. I was wondering if you could talk about pricing dynamics in the Winchester segment. It says here that it was offset by lower pricing and that seems a bit counter-intuitive, given the demand trends that we are seeing.

John Fischer - *Olin Corporation - President & COO*

The other key factor when you look at ammunition pricing is what has happened to the underlying commodities of lead and copper. And copper, as you know, is trading plus or minus $2 which is actually down from something over $4 a couple of years ago. So there are select calibers where there is capacity where there is an ability to move it if you lower the price.

Matt Skowronski - *Longbow Research - Analyst*

Perfect, that's all the questions I have. Thank you.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

You're welcome.

Operator

Arun Viswanathan of RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thanks. I just wanted to, again, revisit this guidance discussion. On the third quarter call, you'd said the new Olin can generate $1 billion of annual adjusted EBITDA without synergies. Now you are guiding to $915 to $985 million with this $40 to $60 million in synergies.

What are the changes that you've witnessed in the last three months that is changed your view on that? Was it mainly the maintenance, or what else is going on in new pricing and so on?

John Fischer - *Olin Corporation - President & COO*

The maintenance is purely a timing issue as it relates to how much we expect to incur in Q1 versus later in the year. The two issues we talked about earlier are the two issues. At the end of October when we last spoke when we gave out that guidance, we were more bullish as it related to the caustic pricing and we have assumed maybe a more conservative stance on that.

We also saw continuing weakening of EDC prices as we moved through the fourth quarter. And we have a lesser, lower outlook for that as we look at 2016 than we did then. And those are the two big drivers.

Arun Viswanathan - *RBC Capital Markets - Analyst*

And the EDC pricing, is that mainly just epilene-driven, or was it something else that is driving that?

John Fischer - *Olin Corporation - President & COO*

We are simply looking at what is the price at which EDC is selling in the market. And as a reference, if you looked at IHS, they would tell you in 2014 EDC for the full-year averaged $0.16. Right now we're sitting between $0.09 and $0.10.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Got it. Okay, thank you.

Joseph Rupp - *Olin Corporation - Chairman & CEO*

All right.

Operator

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

Joseph Rupp - *Olin Corporation - Chairman & CEO*

We want to thank you for joining us today, and we will look forward to reporting our results at the end of April. Thank you.

Operator

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