Dow and Olin Management Announce the Definitive Agreement to Separate Dow's U.S. Gulf Coast Chlor-Alkali and Vinyl, Global Chlorinated Organics and Epoxy Businesses and Assets to Merge with Olin via a Reverse Morris Trust Structure

The Dow Chemical Company and Olin Corporation
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Conference Call/Webcast With
Investors, Financial Analysts and the Media
Remarks By:

Andrew N. Liveris, Dow Chairman and CEO
Jack Broodo, Dow Vice President, Investor Relations
Joe Rupp, Olin Chairman and CEO

J. Broodo

Good morning everyone. Thank you for joining us on such short notice. Today Dow and Olin are making this call available to investors and media via webcast. We will discuss more details regarding the announcement made earlier this morning surrounding the definitive agreement to separate Dow's U.S. Gulf Coast Chlor-Alkali and Vinyl, Global Chlorinated Organics and Epoxy businesses and assets to merge with Olin via a Reverse Morris Trust structure.

Joining me today are Andrew Liveris, Dow's Chairman and Chief Executive Officer, Jim Fitterling, Vice Chairman, Business Operations and Howard Ungerleider, Executive Vice President and Chief Financial Officer.

From Olin, we have Joe Rupp, Chairman and CEO who will describe the benefits of the transaction from Olin's perspective, and John Fischer, President and Chief Operating Officer.

Around 7 AM this morning, a release covering today's announcement went out on BusinessWire and was posted on Dow.com and Olin.com. We will discuss details of the transaction and then conduct a question-and-answer session following the presentation. We have prepared slides to supplement our comments in this conference call. These slides are posted on Dow's website, Olin's website, and through the link to our webcast.

Some of our comments today include statements about our expectations for the future. Those expectations involve risks and uncertainties. We cannot guarantee the accuracy of any forecasts or estimates, and we don't plan to update any forward-looking statements. If you would like more information on the risks involved in forward-looking statements, please see our SEC filings.

In addition, some of our comments reference non-GAAP financial measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained on the Dow and Olin websites. Unless otherwise specified, EPS, EBITDA, and EBITDA margin exclude certain items.

In connection with the transactions, the parties will be filing registration statements and Olin will be filing a proxy statement for a stockholder vote. These filings will contain important information and we advise you to read them. These filings will be available free of charge from the SEC or the relevant company.

On slide four, I'd like to quickly run through the agenda for today's call.

Andrew and Joe will give an overview of today's announcement, including the strategic rationale for the partnership and an overview of the transaction financial structure. Following the presentation, Andrew, Jim, Howard, Joe and John will be available for Q&A.

I will now hand over the call to Andrew Liveris.

A. Liveris

Thank you, Jack. Good morning everyone and thank you for dialing in today. We are delighted you could join us for this historic and significant announcement, which will benefit both Dow and Olin shareholders.

As you know, in December 2013, Dow announced our intention to separate our chlorine value chain in order to find the highest long-term value for our shareholders and the right natural owner with a strategic agenda built on investing for attractive growth in this group of businesses.

After a thorough examination of multiple bidders and several transaction options, I am very proud to tell you, with the unanimous support of our Board of Directors, Dow has reached a seminal agreement with Olin that we believe offers significant strategic benefits for both companies and their shareholders.

As you can see on slide five, for Dow, it represents a tax efficient consideration of $5 billion, or a taxable equivalent value of $8 billion, with a multiple of 8x from a 2014 perspective and a multiple of 7x on a last three year average for these more commodity-like businesses. This is a value-creating deal, with a high multiple, an upfront dividend and debt assumption, and strong upside to shareholders, while creating a world leading new company for both groups of shareholders. And it is highly tax efficient for Dow and its shareholders who will receive the benefit of 50.5 percent of the new entity at the close of the transaction.

As you look at slide six, today's announcement is a culmination of bold decisions that we proactively executed dating back to 2012 and 2013 when the Dow Board and executive team launched a thorough review to identify further actions that would unlock additional value for shareholders from a part of Dow which has been with us since our founding 118 years ago.

These detailed strategic reviews defined the specific steps we would take to drive performance, remunerate shareholders and closely review all of our businesses for a "best owner" mindset.

You've seen the results of our actions which were most recently on full display in our 2014 performance, where we delivered a ninth quarter of year-over-year EPS, EBITDA and EBITDA margin growth; record full-year EBITDA with growth across all operating segments; record cash flow from operations; accelerated portfolio management actions, with $2 billion of proceeds signed in 2014 and now completed; a record $6 billion returned to shareholders in the form of declared dividends and repurchases; and significant progress on our enterprise growth projects on the U.S. Gulf Coast and in Saudi Arabia.

This transaction maximizes the potential of a value chain that, while attractive, was no longer part of Dow's strategic agenda, nor could it compete for capital in Dow's portfolio by moving it from Dow's portfolio to a more natural, more synergistic owner, this allows Dow to deploy its capital to our targeted high-growth businesses.

Our commitment remains steadfast to deliver higher cash flows, more consistent earnings and – most importantly – increased shareholder rewards as our strategic drivers continue to be delivered.

These benchmarks are a clear demonstration of our constancy of purpose and consistency of delivery and represent a pattern of performance illustrative of the effectiveness of our self-help actions which brings me back to today's announcement. Slide seven.

Today marks a significant achievement in our actions to reshape the future of Dow and for Olin. The transaction will enable both of our shareholders to benefit from the significant upside opportunity of the newly merged company which will be an industry leader across the chlor-alkali and derivatives chain, with global market access and first quartile cost structure. Further, it will have highly complementary asset portfolios, providing substantial opportunities to realize synergies as well as product expansion and customer benefits.

Agreements are structured so they deliver value synergies are being delivered by the new owner through consolidation of supply chain and asset-related costs and Dow shareholders are seeing an attractive multiple due to the strategic nature of this combination and, simultaneously, this transaction is immediately accretive to Dow shareholders.

It will also result in reduced debt and accelerated shareholder remuneration while retaining Dow's integration efficiencies, as well as the competitiveness of our chlorine and caustic-consuming businesses – such as Dow AgroSciences and our Polyurethanes businesses on the U.S. Gulf Coast and globally.

Turning to slide eight, let's walk through why the best owner of the chlorine envelope is the one at the table with us today. As you should expect, particularly with a transaction of this size, a tremendous amount of work was invested in considering all possible options that would both maximize Dow shareholder value and position our businesses for future success.

Looking across the chlor-alkali industry landscape, this transaction is a great outcome for Dow the businesses selected for the transaction and of course for Olin. They, like Dow, strive to be number one in each of the markets they participate in, have a strong history of outstanding stewardship in EH&S and have participated in a number of successful partnerships with other manufacturers.

I feel very confident that our employees moving to the merged company will play a big part in their success.

Dow and the new Olin will have a strong, ongoing operational and commercial relationship, including several anchor long-term supply, service and purchase agreements that will support downstream products for both companies. The new Olin will have a robust balance sheet, with significant potential to generate cash flow, growth and shareholder returns.

We have great respect for Olin's management team and have full confidence in their ability to ensure the merged company reaches its full potential. Olin is an excellent partner to be a steward of these assets, with a long and proven track record as well as the ability to obtain significant synergies that can be realized through the merged company.

Turning to slide nine, Dow is in the process of formally separating these chlorine chain businesses into a newly created subsidiary to merge with Olin in a Reverse Morris Trust transaction which will deliver value of $5 billion at an 8x multiple consisting of approximately $2.2 billion in common stock based on Olin's stock price as of the close of business Wednesday, March 25, 2015; $2.0 billion in cash and cash equivalents; and $800 million in assumed debt and pension liabilities.

We intend to execute this transaction as a split off, with the split off utilized to retire significant Dow shares. The final decision to split off or spin off to be made prior to the close of the transaction depending on what will be in the best interests of our shareholders at that time.

We see this as a very “win-win-win”-oriented transaction with shareholders, Dow and Olin all benefitting from this very strategic combination. This will enable Dow to continue our drive to use cash in higher value markets and technologies as we continue to become a focused, vertically integrated innovation company and will enable Olin to become a first tier competitor across the chlorine envelope. Further, it allows both companies to further our strategic drives to deliver increasing shareholder value.

Upon closing of the transaction, Dow shareholders benefit from an ownership at closing of 50.5 percent of New Olin shares, with existing Olin shareholders owning the remaining 49.5 percent.

From a Dow perspective, this transaction will be immediately accretive to earnings per share will improve ROC will improve EBITDA margins and will be favorable on our credit ratios.

Dow shareholders will benefit from the synergies, such as logistics, procurement and service support that Joe will highlight later in the presentation. In terms of governance, Dow will designate three additional directors to Olin’s existing Board and the transaction is subject to a simple majority shareholder vote of Olin shareholders and customary closing and regulatory clearance. Importantly, completing this transaction also reduces Dow’s replacement asset base by $10 billion.

It will enable us to continue to focus on high-value, differentiated markets while maintaining integration efficiencies and we now have exceeded our target of $7 to $8.5 billion of taxable equivalent value from non-strategic divestitures that we established last year.

Over the next several quarters, Jim Fitterling, who has spearheaded the transaction from the beginning, will be charged with implementing the transaction for Dow.

In a separate, arms-length transaction, Dow and Olin have agreed to a 20-year, co-investor agreement for the supply of ethylene by Dow to Olin for the volume of ethylene required to operate these businesses today. This agreement is additive to the financials already discussed, and is highly value-creating to Dow as an increment to our production grid on the U.S. Gulf Coast, as well as enabling the New Olin to be a sustainable, independent, integrated chlor-vinyl producer.

This is a co-producer deal that is standard in our industry, making available ethylene capacity for an upfront payment where the ongoing terms represent fair value to both companies, and Olin assumes the market risk.

And together, both Dow and the newly formed company will benefit from long-term, sustainable physical integration, which is key to the ongoing profitable growth of both companies and we look forward to a strong relationship that will be in place for years to come.

Now, let me introduce Joe.

J. Rupp

Thank you, Andrew, and it is a pleasure for me to be here today to discuss what is both the largest transaction in the long history of the Olin Corporation, and a truly a transformational one.

As many of you know, Olin has been in the Chlor Alkali business since 1892, 123 years, when the Mathieson Chemical Corporation began operations in Saltville, Virginia. Since the 2007 divestiture of our metals business, Chlor Alkali has been the primary focus of the Olin Corporation. We are committed to the business and over the past seven years have invested to modernize, improve and expand, in order to evolve into a top tier commodity chemical business.

The opportunity for Olin to combine its Chlor Alkali operations with these Dow businesses allows us to take our business to an entirely new level. The scale and product diversity of the new company is shown on Slide 11.

It's a game changer and creates a win for Dow and a win for Olin shareholders, and as Andrew said, a win for the new group of businesses and their customers. It is consistent with our strategy of building on our existing leadership positions and will create an industry leading Chlor Alkali and chlorine derivatives company motivated to invest to further optimize and expand the business. With the Reverse Morris Trust Structure we will be able to operate with a robust balance sheet.

We strongly believe that this combination will create a world leader with a top tier cost structure. The assets of the two companies are highly complementary and provide for a broadly diversified product line and a diverse set of logistics capabilities. These complementary assets provide substantial opportunities to optimize and enhance the operating capabilities and the financial returns on these assets which will lead to significant incremental shareholder value.

Slide 12 illustrates that we created a leader in chlorine-based products.

After the completion of the transaction, Olin will be the largest chlor alkali producer in the world, as shown on slide 12, and will have the following leadership positions in chlorine derivatives the number one seller of merchant chlorine in North America; the number one global seller of chlorinated organics; the number one seller of industrial bleach in North America; and the number one seller of on purpose hydrochloric acid in North America; the number one global supplier of epoxy materials.

The assets of the new Olin will be high quality and low cost. Approximately 85% of the electricity consumed will be generated from natural gas and hydro-power. The combined businesses will also have access to cost advantaged, company controlled, brine to support over 80 percent of the Chlor Alkali capacity. In addition, the new Olin will be the largest seller of membrane caustic soda in the world.

We believe this combination will generate a minimum of $200 million of synergies by the end of the third year. These are shown on slide 13. And as a reminder, this synergy estimate, which includes approximately 50 discrete projects, has been prepared without any input from current Dow employees.

Olin believes the input of Dow employees will result in the identification of additional synergy opportunities. The major categories of synergies are cost reduction and benefit opportunities from distribution and logistics; asset optimization; operational efficiencies; growth from new production, new products, and new customers and growth from new facilities.

A specific example of the type of synergy that is available is in the manufacture and sale of industrial bleach. As we have regularly described bleach is a regional business because of the volume of water that is contained in the product, which limits the distance the product can be shipped economically. The North American chlor alkali assets we are acquiring are in regions where Olin does not currently have a bleach manufacturing presence, so expansion to these locations is natural. In fact, Olin currently has bleach manufacturing equipment that can be quickly put into service.

Olin has a long history of operating chlor alkali facilities with other on-site manufacturers and customers and is looking forward to having Dow as our strategic partner. Dow will be a significant and critical customer of Olin and will contribute to a stable base of chlorine of the caustic soda business. This base load provides Olin with significant operating leverage on a going forward basis.

We are pleased that we were afforded the opportunity to invest in capacity rights for ethylene. This transaction will allow Olin to be a sustainable, integrated chlor-vinyl producer and to fully operate these assets on a competitive basis over the long term.

The combined businesses generated approximately $1 billion of EBITDA on a pro forma basis during 2014. As Olin has said on several occasions over the past year, we believe 2014 represented a trough profitability year for chlor alkali producers in North America, and that the combined businesses have significant upside as they move from trough to peak in both Olin Chlor-Alkali, Dow Chlor-Alkali Vinyls, and the Dow epoxy business.

This is reflected in the transaction multiple of 7x on a last three year average and 8x from a 2014 perspective.

This transaction allows Olin to leverage its over funded US defined benefit pension plan. In the transaction we have agreed to assume up to $400 million of Dow US pension liabilities. Based on our current funding status the most likely cash cost to satisfy this liability is $200 million, but under certain scenarios the cash cost will be zero.

The cash flow from the combined businesses is expected to be very strong. Olin expects to spend approximately $200 million of incremental capital during the first three years to achieve the synergies and the optimal operating and delivery footprints, and an additional $100-150 million of transition related costs also during the first three years. Even with those one time expenditures, Olin expects the cash generated to significantly exceed demands, including the Olin dividend.

Olin has paid a dividend for 353 consecutive quarters and it remains a key component of our shareholder value proposition. And let me assure you that we intend to maintain the current annual dividend of 80 cents per share per year after the completion of the transaction.

In terms of governance, the new Olin will have a separate management team, led by myself and an executive team to be selected from the combined entities. We expect the transaction to close before the end of 2015.

Yesterday the Board of Directors of Olin gave its unanimous approval to this transaction, and the management team and the Board are both excited and looking forward to a very bright future for Olin. We are pleased to maintain upside for Dow shareholders in all of the expected synergies through our 50.5 percent ownership. With that, I will turn it back over to Andrew.

Thank you, Joe.

Today's announcement signifies a further powerful shift in Dow's portfolio towards targeted, integrated high-performing markets and serves as another example of how Dow continues to behave as our own best activist and take action in our business portfolio. We are delivering on our promises. We have now exceeded our divestment target with this transaction.

And this transaction, as Joe said, offers significant further upside value even beyond the financials we discussed today both in terms of the synergy upsides, as well as additional benefits that can be gained through this highly strategic partnership. And, of course, it delivers benefit directly to Dow shareholders by accelerating our share buyback and debt reduction programs and through a high multiple in a tax efficient structure.

We are very excited about the joint strengths of our business combination in the transaction with Olin and the significant growth opportunities it represents for all shareholders.

And now, Jack, let's turn it over to Q&A.

J. Broodo

Thank you, Andrew.

Now we will move on to your questions.

First, however, I would like to remind you that my comments regarding forward-looking statements and non-GAAP financial measures apply to both our prepared remarks and the following Q&A.

Deanna, would you please explain the Q&A procedure?

For your reference, a copy of our prepared comments will be posted on Dow and Olin websites later today. This concludes our call for today. We look forward to speaking with you again soon.

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