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Olin Corp. (OLN)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Olin Corporation Third Quarter 2019 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I'd now like to turn the conference over to Logan Bonacorsi, Olin's Director of Investor Relations. Please go ahead, ma'am.

Logan Bonacorsi

Director-Investor Relations, Olin Corp.

Good morning, everyone, and thank you for joining us today. Before we begin, let me remind you that this presentation, along with the associated slides and the question-and-answer session following our prepared remarks, will include statements regarding estimates of future performance. Please note that these are forward-looking statements and that actual results could differ materially from those projected.

Some of the factors that could cause actual results to differ from our projections are described, without limitations, in the Risk Factors section of our most recent Form 10-K and in yesterday's third quarter earnings press release. A copy of today's transcript and slides will be available on our website in the Investors section under Past Events. The earnings press release and other financial data and information are available under Press Releases.

With me this morning are John Fischer, Olin's Chairman, President and Chief Executive Officer; Pat Dawson, Executive Vice President and President-Epoxy & International; Jim Varilek, Executive Vice President and Chief Operating Officer; and Todd Slater, Vice President and Chief Financial Officer. We will begin with our prepared remarks and, thereafter, we will be happy to take your questions.

I will now turn the call over to John Fischer. John?

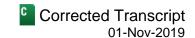
John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

Thank you, Logan, and good morning, everyone. Today, I'll begin my remarks by discussing the key points from the third quarter, followed by our updated outlook for the remainder of 2019, a detailed overview of each of Olin's business segments, our long term view on market dynamics for Chlor Alkali and Epoxy, and conclude with the Winchester segment.

With that, let's turn to slide 3. During the third quarter of 2019, Olin reported adjusted EBITDA of approximately \$293 million. While this represents a year-over-year decline, results for the quarter improved 43% sequentially despite a challenging economic backdrop. Third quarter results benefited from lower planned maintenance turnaround costs, strong operating performance, the resolution of the one-time events that affected the Epoxy business during the second quarter, as well as seasonally higher volumes across our business segments. However, several challenges during the period worked to offset these positives.

Beginning in the middle of the third quarter, we saw a significant slowdown in demand from a broad spectrum of chemical customers. We experienced lower than expected demand from urethane, agricultural, refrigerant, alumina, pulp and paper, automotive, electrical laminate and industrial coatings customers. In addition to lower



volumes, lower customer demand negatively affected prices for several products. We experienced lower pricing for caustic soda, ethylene dichloride, hydrochloric acid, chlorinated organics and epoxy resins.

Moving now to our updated outlook for the full-year 2019, which is on slide 4, we expect full-year 2019 adjusted EBITDA to be between \$930 million and \$980 million. This compares to full-year 2018 adjusted EBITDA of \$1.265 billion. The year-over-year decline in adjusted EBITDA can be primarily attributed to three factors: an approximately \$325 million impact from lower caustic soda pricing; lower epoxy resin pricing; partially offset by lower maintenance turnaround costs.

Looking ahead, we expect weak underlying demand fundamentals in our chemical businesses to persist at least through the remainder of this year. As a result, we anticipate our fourth quarter adjusted EBITDA to decline when compared to the third quarter of 2019. The fourth quarter may represent the lowest earnings quarter of the year.

The key assumptions behind this forecast are lower caustic soda, ethylene dichloride, hydrochloric acid, chlorinated organics and epoxy resin pricing, lower volume levels in chlor alkali and epoxy, lower operating rates in the chemical business due to seasonally weaker demand coupled with seasonal inventory destocking and fourth quarter turnaround.

Now, we'd like to take a more detailed look at each of our business segments, starting with Chlor Alkali Products and Vinyls, which is on slide 5. The Chlor Alkali Products and Vinyls business experienced lower demand from a broad spectrum of customers, including urethane, agricultural, refrigerant, alumina and pulp and paper customers.

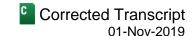
As an example, a major chlorine customer did not buy any chlorine over four-week period beginning in September. The slower demand negatively impacted both volumes and pricing. Third quarter 2019 adjusted EBITDA for the Chlor Alkali Products and Vinyls segment was \$234.9 million, representing a 29% year-over-year decline. This decline was driven by lower caustic soda pricing.

Caustic soda pricing in Olin's system has declined more than 20% or approximately \$90 million when compared to the third quarter of 2018. Chlorinated organics and hydrochloric acid pricing also declined year-over-year. Volume levels for caustic soda, chlorine, chlorinated organics and hydrochloric acid all declined year-over-year.

Offsetting some of this year-over-year pricing and volume pressure were lower raw material and operating costs. Looking at the fourth quarter of 2019 and given the current demand environment, we expect results for the Chlor Alkali Products and Vinyls segment to be lower sequentially and to likely represent the lowest earnings quarter of 2019.

Now, let's take a closer look at caustic soda pricing, which is on slide 6. Caustic soda pricing in Olin's system declined in the third quarter. The price decline was particularly pronounced in the export market, where caustic soda pricing indices were down \$55 per ton in the third quarter and \$25 per ton additionally in October. Domestic pricing, while lower in the third quarter and in October, was more resilient due to support from a relatively stronger US economy and the cost to serve that market. Looking ahead, we expect the current weakness in caustic soda demand to continue in the fourth quarter and potentially into 2020.

But let's now move to the performance of our Epoxy segment, which is on slide 7. During the third quarter of 2019, Olin's Epoxy business generated adjusted EBITDA of \$51.1 million, a 9% decline from the level achieved in the third quarter of 2018. While these results fell short of our expectations, the first three quarters of 2019 represent Olin's strongest nine-month period for this segment since the acquisition of Dow's Chlorine Products



businesses in 2015. The gradually improving trend in Epoxy results highlight the strength of the business' chlorine integration and the potential longer term earnings power.

Looking ahead to the fourth quarter of 2019, we expect Epoxy segment results to be lower than the fourth quarter 2018 results. Sequentially, we anticipate seasonally lower volume levels, stable raw material costs and unfavorable pricing trends to affect quarterly results. We now believe 2019 Epoxy segment adjusted EBITDA will be lower than last year's levels due to lower margins, partially offset by lower maintenance turnaround costs.

Looking now at global epoxy resin prices, which are shown in the exhibit on slide 8, during the third quarter, liquid epoxy resin pricing continued to move lower in all regions. The average global epoxy resin pricing has declined approximately 15% during the first nine months of 2019. The price declines have primarily been driven by demand weakness from global automotive, electrical laminate, and industrial coating customers. A bright spot in the Epoxy business has been sales in the wind energy sector which are forecast to increase approximately 15% in 2019 compared to 2018.

Before moving to the Winchester segment, I would like to emphasize the long term outlook for our chemicals businesses which is on slide 9. Demand for Olin's key products such as caustic soda, chlorine, chlorinated organics, ethylene dichloride, and epoxy resins have been weaker in 2019 than 2018. Production levels for alumina and pulp and paper, two key end use markets for caustic soda, have declined.

Demand for epoxy resin in Europe, Olin's largest epoxy market, has been flat and hydrochloric acid demand in North America has declined due to weaker demand from oil and gas producers. In spite of these near-term dynamics, we continue to believe market fundamentals for chlor alkali, vinyl and epoxy products will be supported by favorable long term supply and demand fundamentals.

We continue to believe that there will be demand growth for the chlor alkali sector on both sides of the ECU, both chlorine and chlorine derivatives as well as caustic soda. Capacity growth will lag demand. To date, there have been minimal global capacity additions and announcements of additions to meet projected demand growth. The US will continue to enjoy a sustained energy and feedstock advantage over the rest of the world.

Current industry economics do not support world-scale chlor alkali investments. Ultimately, over the long-term, supply and demand balances will tighten, resulting in upward pricing momentum for Olin's caustic soda, chlorine and chlorine derivative products. Similarly, in the Epoxy business, we see global demand growth and minimal capacity additions.

Now, let's move and talk about our Winchester segment, which is on slide 10. Winchester experienced its first quarterly year-over-year increase since 2016, ending the third quarter of 2019 with adjusted EBITDA of \$19.1 million. The 26% improvement was a result of higher commercial, military and law enforcement volumes and favorable commodity and operating costs. Lower year-over-year product pricing partially offset the improvement. We are forecasting a sequential decline in adjusted EBITDA during the fourth quarter, consistent with the business' normal seasonality. We continue to expect Winchester's results for the full-year 2019 to be comparable to or slightly better than the full-year levels achieved in 2018.

Now, turning to the Lake City contract in slide 11, late in the third quarter, it was announced that Olin's Winchester segment secured the contract to operate the government-owned Lake City US Army ammunition facility in Independence, Missouri. This award is transformational for the Winchester business.



After one-year transition period, Winchester will assume operational control of the facility on October 1, 2020. The contract has an initial term of seven years and we expect this multiyear contract will drive a significant increase in annual profitability for this segment starting in late 2020. We estimate increased annual revenue of between \$450 million and \$550 million, and a corresponding improvement in annual adjusted EBITDA of \$40 million to \$50 million. The full-year effect of the Lake City contract will begin in 2021.

I would like to highlight several other near-term enhancements that will improve cash flows as we transition from 2020 to 2021 and these are shown on slide 12. In 2021, we expect incremental cash generation of approximately \$225 million from items within Olin's control or that are contractually committed. The refinancing of the high cost bonds which were issued as part of the Dow acquisition in 2015 will become callable in late 2020 and are expected to reduce interest expense by \$50 million to \$70 million annually.

The winding down of the multiyear information technology project to integrate the acquired Dow Chlorine Products businesses will save approximately \$100 million of capital and expense spending. The vinyl chloride monomer contract is transitioning from the toll manufacturing arrangement that has been in place since the acquisition to a direct customer sale agreement beginning on January 1 2021. And finally, the full-year effect of the new Lake City Army ammunition contract. These cash flow enhancements of approximately \$225 million provide significant incremental cash flows to Olin independent of industry conditions.

And with that, I'd like to turn the call over to Todd Slater, Olin's CFO. Todd?

Todd A. Slater

Chief Financial Officer & Vice President, Olin Corp.

Thanks, John, and good morning, everyone. The accelerated share repurchase program that was announced on August 5 was completed in early October. 5.7 million shares of Olin's common stock were repurchased for \$100 million. Also during the third quarter, Olin completed a \$750 million bond offering and a new \$2 billion bank credit facility. We were able to establish a low-risk pathway to refinance high-cost bonds assumed during the 2015 Dow acquisition and when they become callable in late 2020, while increasing our financial flexibility.

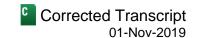
Now, let's turn to our updated 2019 cash flow forecast, which is on slide 13. Assuming the midpoint of our full-year adjusted EBITDA guidance, we expect to generate approximately \$230 million of free cash flow in 2019. From the midpoint of our adjusted EBITDA forecast, which is on the far-left of the waterfall chart, we deduct \$30 million in estimated cash tax payments. The cash taxes paid in 2019 are almost all attributable to earnings in foreign jurisdictions.

Column 3 reflects the midpoint of our current forecast for capital spending of \$375 million, which includes annual maintenance capital spending of between \$225 million and \$275 million and the investment associated with our multiyear information technology integration project of approximately \$70 million.

As we previously discussed, in 2017, we began a multiyear project to implement new enterprise resource planning, manufacturing and engineering systems across the heritage Olin and the acquired Dow Chlorine Products businesses. The project also includes the required information technology infrastructure.

Now, turning to the fourth column, we are expecting a \$25 million increase in working capital in 2019 as we use cash from the refinancing to reduce the sale of receivables under our factoring arrangement.

In the next column, one-time items include information technology integration costs and cash restructuring costs of approximately \$90 million. This includes approximately \$50 million for the IT integration project that I just spoke



about and approximately \$25 million of duplicate IT costs being incurred during the transition. These costs are partially offset by \$20 million of pre-tax proceeds from the sale of an investment in non-consolidated affiliate in the first quarter.

The next column represents cash interest expense. As of September 30, we had approximately 5% of our debt at variable interest rates. In the far right column, we are forecasting \$230 million of free cash flow.

Now, I'd like to move on to Olin's priorities for free cash flow, which are on slide 14. Since the acquisition in 2015, Olin has utilized its cash flow repaying approximately \$500 million of debt, repurchasing \$190 million of Olin common stock or 6% of shares outstanding, and continuing our consistent quarterly dividend.

Looking ahead, our 2020 priorities for free cash flow will be expanding our cash position on the balance sheet in advance of the approximately \$490 million ethylene payment at the end of 2020. As a reminder, this investment will provide Olin additional cost-based ethylene for 20 years and support the VCM contract.

After 2020, we expect to use our free cash flow to reduce debt levels, reward shareholders and invest in our pipeline of low-cost organic growth projects. These growth opportunities exist in smaller increments across the chlorine envelope and our production platform, and can be implemented as market conditions warrant.

Finally, on Wednesday, October 23, Olin's board of directors declared a dividend of \$0.20 on each share of Olin common stock. The dividend is payable on December 10, 2019 to shareholders of record at the close of business on November 12, 2019. This is the 372nd core consecutive quarterly dividend to be paid by the company.

Operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] First question comes from Don Carson of Susquehanna. Don, please proceed.

Don Carson

Analyst, Susquehanna Financial Group LLLP

Yes. Thank you. John, a question on the chlor alkali cycle, this cycle seems a little different in that normally industrial demand is more sustainable than vinyls demand especially into residential construction. We seem to have the opposite this time around. Is that why you think that we're going to have lower caustic pricing in 2020 versus 2019? And then I have a follow-up on Winchester.

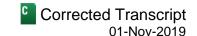
John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

What I would say is, what I think is – we think is different about the chlor alkali cycle as we sit at this moment is there's been a significant increase in the amount of chlorine exported as derivatives over the past 12 years. If you look today between 35% and 40% of the chlorine that's produced in North America is actually exported.

So when we look at a slowdown in industrial production in the United States, it has typically been accompanied by a slowdown in housing and construction in the US. But what we really – for this cycle to take full effect we really need there to be a global slowdown in construction so that the chlorine demand actually goes down in North





America. So we would see a lower level of exports. I think if you looked at caustic demand in North America, it would significantly exceed chlorine demand right now, just in North America.

Don Carson

Analyst, Susquehanna Financial Group LLLP

And then my follow-up on Winchester. We're seeing a significant change in industry distribution patterns or are about to see where the largest retailer Walmart is going to restrict itself certain types of ammunition. What impact do you think this has on overall demand, if any, and could this actually be positive for you given that presumably the smaller distributors who may – who will take over from Walmart don't get the same terms as Walmart does.

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

I would say, at the moment, it's probably too soon to tell because Walmart is still in the market. Their targeted exit on the products they're exiting is December 1. And I imagine that they're not helping the market right now because they're trying to move all that product. Longer – in the immediate aftermath, I would not be surprised if there's some short run disruptions on the retail supply side just because Walmart has such a large presence and nobody else comes close. I think your comment on pricing probably has some validity, but we'll need to see now how that plays out.

Don Carson

Analyst, Susquehanna Financial Group LLLP

Thank you.

Operator: Our next question comes from Kevin McCarthy of Vertical Research Partners. Kevin, please proceed.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Yes. Good morning. Would you comment on where you think demand for chlor alkali is tracking in 2019? And based on your prior experience with previous downturns, what would you expect the trajectory to look like demand-wise as we move through 2020?

James A. Varilek

Executive Vice President & Chief Operating Officer, Olin Corp.

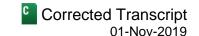
Kevin, this is Jim. I would say on a year-over-year basis, we have seen some weaker operating rates and so forth which would indicate that we have had a lower caustic output. So, I think that's been exacerbated here in the third quarter. We've seen that decline and we've seen it in specific pockets, pulp and paper and alumina that are actually driving that.

Having said that, I think there's some inventory corrections and so forth that are taking place in those markets. And as we look into 2020, we need to see some kind of a, what I would call, an industrial production rebound to see increasing demand and we need to get – as was mentioned earlier, we need to get the industrial production side of things which driving – drives caustic demand moving to the upside in excess of chlorine demand, which will help bring balance back to the market.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC





And then I had a follow-up question, if I may, on Winchester, on slide 11, I think you reference \$25 million of transition costs. Can you talk a little bit about what those are and also whether you need to reinvest capital to serve this contract and whether or not there are any other meaningful contracts that might roll off or roll on over the next year or so?

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

The \$25 million is the expense that Olin will incur to take over what is effectively a \$500 million business in a different location. We have to provide the entire management team which is somewhere between 12 and 15 people. They have to be relocated. They have to have what I'll call a transition period living there. There are certain investments that we need to make in terms of getting what I'll call the management systems up to speed. There are 2,000 employees at Lake City that become our employees. We have to put them on our benefit programs, et cetera, et cetera. So that's what the \$25 million is about.

In terms of investments by Olin, the only real investment we are obligated to make is in working capital. And I would tell you I think that's in the \$60 million to \$80 million range which will occur late next year.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

That's helpful. Thank you.

Operator: Our next question comes from Jim Sheehan of SunTrust. Jim, please proceed.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Good morning. Thanks for taking my question. Would you expect caustic soda customers to be in need of restocking inventories sometime in early 2020?

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

Yeah, we would expect that. I mean, they've been in destock mode for quite some time. So we would expect that at some point here that restocking has to occur. Right now with prices moving down with the industrial production and general demand in kind of a malaise, they've been destocking and would probably continue to do that until they see something to the positive side that will cause them or give them a trigger to restock. But it's got to happen at some point in time.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Thank you. And what is your expectation for the turnaround costs in 2020 relative to 2019?

Todd A. Slater

Chief Financial Officer & Vice President, Olin Corp.

We haven't given a specific number, Jim, but I would tell you qualitatively they will be higher. We've talked about the large turnarounds. There's one in the VCM plant that occurs every three years. It will occur in the second quarter of next year, and that will all other things being equal make turnaround costs higher next year than this year.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Thank you.

Operator: Our next question comes from Frank Mitsch, Fermium Research. Frank, Please proceed.

Frank J. Mitsch

Analyst, Fermium Research LLC

Thank you and congrats on the Lake City contract. John, an interesting factoid on the chlorine customer not buying anything for four weeks starting in September. I was wondering what industry or what end market that was and do we have to go back to like the 2008, 2009 timeframe for the last time you saw that occur?

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

That is the longest outage from that type of customer we've seen since the end of 2008. So yes, you do have to go back that far. I'd rather not say where they came from, but I would just take the opportunity to say we were moving along through the month of August last – this past August with relatively high demand across the spectrum of what we're doing and it's like we hit a wall in September. And that's what we're really experiencing now. Things dropped off dramatically and they've stayed down as up till today anyway.

Frank J. Mitsch

Analyst, Fermium Research LLC

Okay, that's helpful. And in discussing not just customer inventories but I'm more curious on caustic soda side in terms of producer inventory levels, we'd heard that they were somewhat elevated. Can you talk about how that trended, how do you believe that trended through the third quarter and where producer inventory levels are on caustic here today?

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

I would say I don't feel qualified to comment on the competitors or the other participants in the market. I would tell you that as we sit today our caustic inventory is equal to or slightly below our normal levels.

Frank J. Mitsch

Analyst, Fermium Research LLC

And was it above it during the third quarter and you've been able to work that down. Is that the way that we should think about that?

John E. Fischer

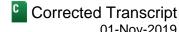
Chairman, President & Chief Executive Officer, Olin Corp.

No, we've had a series of term – we built a little bit of inventory in the third quarter because we have a series of turnarounds that are going on early in the fourth quarter. Those turnarounds have had the effect of bringing inventory levels below normal.

Frank J. Mitsch

Analyst, Fermium Research LLC





Q3 2019 Earnings Call 01-Nov-2019 Terrific. Thank you. **Operator:** Our next question comes from Neel Kumar of Morgan Stanley. Neel, please proceed. Neel Kumar Analyst, Morgan Stanley & Co. LLC Thanks. I was wondering if you can give any preliminary expectations on how to think about 2020 EBITDA. I mean, just given the softness we're seeing in demand, do you think it's fair to think about it as annualized fourth quarter EBITDA expectations plus perhaps a quarter on the new Winchester contract? John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp. What I would say is we intend to give full-year 2020 when we report our fourth quarter earnings. I would just go back to the comment I made to Frank about how strong the slowdown was and I would say based on that and the ability of this industry to move very rapidly, one way or the other, it would be imprudent to really give 2020 guidance at this moment. Neel Kumar Analyst, Morgan Stanley & Co. LLC Okay. And then I just was wondering if you can talk about what you're seeing in terms of the EDC market going forward. It seems that prices started to strengthen a bit in October, so just curious to what you're seeing in that market? James A. Varilek Executive Vice President & Chief Operating Officer, Olin Corp. Yeah, Neel, this is Jim. EDC, I think at the last call what we said was that we expect that EDC demand to continue fairly solid in the third quarter. We did see that. Prices did come down as we expected. And we mentioned that we were going to be buffered from a good bit of that movement and we in fact did see that. So, that's the third quarter. Heading into fourth quarter, there has been still some pressure on EDC prices to the downward side. But you're correct in your observation that here in the last few weeks, we've actually seen some movement to the upside on EDC. And as I have spoken before, we oftentimes see EDC demand pick up as people start to restock in the fourth quarter. So we'll have to see where the rest of the quarter takes us in terms of pricing, but we would expect to see some increased volume in the latter part of the quarter. Neel Kumar Analyst, Morgan Stanley & Co. LLC Okay. All right. Thank you. Operator: Our next question comes from Mike Leithead of Barclays. Mike, go ahead.

Michael Leithead Analyst, Barclays Capital, Inc.

Thanks. Good morning, guys. If we were to just flat line pricing for your key products right now, what would the year-over-year EBITDA headwind be next year versus this year?



John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.	A
I don't think we want to – I don't know what flat lining means, because it will move – you want to flat line at this moment, I would say, if that happens	
Michael Leithead Analyst, Barclays Capital, Inc.	Q
If we just took third quarter levels and just ran them straight.	
John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.	A
I don't have that calculation. I would prefer to answer that with more inf	ormation.
Michael Leithead Analyst, Barclays Capital, Inc.	Q
Fair enough. And then on cash flow, I think slide 12 is helpful to think a from 2019 to 2020 for free cash, we'll take whatever level of earnings n should we think about the changing cash calls next year versus what we	ext year, but just agnostic of that, how
John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.	A
Well, we've talked about a couple of things that are, what I would call, or remarks about the ethylene. We also talked about the bond call, there's talked about the need, there was an earlier question to fund working call expect given the environment we're in that you will see lower capital spusiness stays where it is, we should see working capital ex the Lake Coupling the coupling that is the second seco	s a premium to be paid on that. And we upital at Winchester. That said, I would bending for us next year. And if the
Michael Leithead Analyst, Barclays Capital, Inc.	Q
Got it. Thank you.	
Operator: Our next question comes from Eric Petrie of Citi. Eric, pleas	se proceed.
Eric B. Petrie Analyst, Citigroup Global Markets, Inc.	Q
Hi. Good morning.	
John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.	A
Good morning.	
Todd A. Slater Chief Financial Officer & Vice President, Olin Corp.	A
Good morning.	

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

It seems the alumina industry is oversupplied with recent producer announcements to review capacity. Has this impacted you at all and have you seen with the slowdown in industrial production customers for caustic switch more to spot versus contract?

James A. Varilek

Executive Vice President & Chief Operating Officer, Olin Corp.

As I mentioned before, Eric, – this is Jim. As I mentioned before, we have seen weakness in the market. And I think the best – the alumina market, and I think the best indicator of that it actually is the pricing and the price declines that have taken place in that market where they've come off all the way down into the LMEs or way down into levels that they haven't seen in several years. So that it would indicate the weak demand.

As far as individual capacities in alumina and so forth, I think you'd have to speak to them about what's the right size and where their capacity needs to come off. We have seen weaker demand coming out of the alumina sector. But to your comment about spot or whatever, spot caustic pricing and so forth and spot versus contract, I would say we haven't seen a significant change in the action of – in that industry.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Helpful. And secondly, how much of your Epoxy volumes are indexed to raw materials?

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

Indexed to raw materials.

Pat D. Dawson

Executive Vice President & President-Epoxy & International, Olin Corp.

Yeah, Jeff, this is – sorry, Eric, this is Pat. But the index seems very little, quite frankly most of the indexing where we index to raw materials is in our upstream, things like benzene and propylene. So benzene, we can pretty much immediately offset any changes there in our upstream. Very little indexing gets done in the midstream and downstream parts of our portfolio.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Thank you.

Operator: Our next question comes from Jeff Zekauskas of JPMorgan. Jeff, please proceed.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Thanks very much. What's South American demand for caustic been like for you if you look at the third quarter and compare it to the second?

James A. Varilek

Executive Vice President & Chief Operating Officer, Olin Corp.

Jeff, this is Jim. Demand in Latin America has declined in the third quarter. Latin America had been a very strong growth area over the past couple of years. Again, I would focus on the pulp and paper and alumina markets which drive Latin American growth and specifically Brazilian growth, and those have been softer. And so we've seen the same things in Latin America as we've seen elsewhere in the world respective to those two sectors.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

In thinking through the last few conference calls, I think when we began 2019, there was a general optimism around caustic prices. And, obviously, caustic prices have been weak. When you think through the change from a more optimistic approach to a less optimistic one, do you think that the major factors were really in paper and alumina or do you think that the factors were wider than that, leading to the weakness in caustic prices?

James A. Varilek

Executive Vice President & Chief Operating Officer, Olin Corp.

I think they're much wider than just those two sectors. I really think that when you look at the – whether you want to call it an economic malaise, the impact of trade wars, uncertainty around Brexit, and so forth, I think that's weighing across a variety of different industries and it backs up into what we're seeing.

Clearly, pulp and paper and alumina have seen declines and we have a tendency to highlight those because they are larger end use segments. But at the end of the day, I think it's a broader decline. And I think that's also why we saw the significant drop off in the middle of the third quarter, there was an awful lot of negative economic data and so forth and forecast that came out during that period, and I think that affected the mindsets of many of our customers.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Okay. Thanks very much.

Operator: Our next question comes from Hassan Ahmed of Alembic Global. Hassan, please proceed.

Hassan I. Ahmed

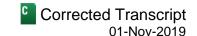
Analyst, Alembic Global Advisors LLC

Again and again in your prepared remarks I keep hearing that there's no incremental capacity on the horizon. But over the last couple of weeks, certain reports have popped up that an overseas player may invest as much as \$3 billion in the US towards a fairly integrated chlorovinyls facility. Have you heard similar things and how should we be thinking about that?

James A. Varilek

Executive Vice President & Chief Operating Officer, Olin Corp.

Hassan, this is Jim. I think the way to think about capacity and the future capacity, I think what we've consistently said is that we believe over the long-term that demand for caustic products will outstrip the capacity that's being added. I don't think anybody believes that there won't be some incremental capacity or even longer-term there may be some larger capacity that will be added at some point in time.



What we've said is that demand will outstrip capacity additions. And that right now, reinvestment economics do not exist on a large world-scale integrated facility. So, I think suppliers in various – whether they're PVC producers or integrated players, continuously evaluate when and if the most opportune time might be to invest. So I think that's an ongoing process, but we firmly believe that this imbalance between growth and capacity will continue for some period.

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

A

And there was something published about an overseas producer adding capacity in North America, but that was capacity associated with PVC, some chlor alkali with a targeted day of installation of 2025 to 2026. And it was a relatively small amount when you look at an 80 million ton market that if it grows would have – that was half – less than half of 1% of the GDP market or the caustic market, so.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC



Understood. Very helpful. And just sticking to the supply side, during sort of the course of Q3 earnings, some of the companies reporting have talked about increased environmental sort of inspections and the like in China. Are you hearing similar things within chlorovinyls, are you hearing of any curtailments in China based off of these sort of inspections and the like?

Pat D. Dawson



Executive Vice President & President-Epoxy & International, Olin Corp.

Hassan, this is Pat. Certainly you've seen a lot of volatility over the past year in China around these environmental issues in epoxy and specifically in epichlorohydrin. So, as volatility continues to persist around these supply disruptions and that has led to epi prices going up 40% year-over-year. Now, it's important to keep in mind that very little epi leaves China because it's just not cost effective and only time it comes out if epi prices go up outside of China.

So, what this 40% year-over-year increase has done in China on epi it's now caused LER prices in China over the past 30 to 45 days to go up significantly and actually prices for LER in China are now about \$500 a ton higher than outside of China. And so, if this arbitrage persists and there will be increased LER imports into China from producers probably primarily in Northeast Asia, but many parts of the world. So I think this could bode well for LER pricing around the world.

And of course, Hassan, we saw some of those same movie before in late 2017 and 2018 which led to LER prices not just going up in China, but in other parts of the world as well. So stay tuned, the environmental issues continue to persist and it definitely continues to impact both chlor alkali and epoxy capacity.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC



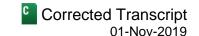
Very helpful. Thank you so much.

Operator: Our next question comes from Mike Sison of Wells Fargo. Mike, please proceed.

Michael Sison

Analyst, Wells Fargo Securities LLC





Hey, good morning. Let me think about slide 6 and you go back to the last downturn in 2015 and 2016 for industrial demand, contract – North American contract prices were similar to spot and now spot is a lot lower and contract is a little bit higher. So, do you think contract will sort of follow suit with spot or does the spot come up or how does that dynamic kind of unfold over the next couple of quarters do you think?

James A. Varilek

Executive Vice President & Chief Operating Officer, Olin Corp.

A

Mike, this is Jim. I think that as long as spot and export prices remain below the contract prices, there will be some pull down in those prices just because that's the tradeoff that companies make.

Having said that, however, we still believe in the fundamentals of this marketplace. And we're still getting a lot of requests from a contract standpoint where customers continue to be focused on security of supply and so forth. So we believe that we're not going to see a dive off here in terms of the contracts, but because of that security of supply and so we think that is going to continue to maintain this spread. And in fact, the first thing that will move when we have – when to go to the upside is the export and the spot pricing and it can be fairly dramatically as obviously you see on this chart.

Michael Sison

Analyst, Wells Fargo Securities LLC

Right. And then just can you maybe just give us where you think operating rates are for North American spot export market is now and maybe where it was over the last years. Just to give us a perspective of and where we're sort of at.

James A. Varilek



Executive Vice President & Chief Operating Officer, Olin Corp.

Well, from an operating rate standpoint, I think the most recent operating rate was 84%, which is a significant decline from 92% in the previous month. And I think what you'd see over the course of the year is that we're about 1 percentage point to 2 percentage points lower this year than last year in terms of operating rate. The September drop off, there are a very significant amount of turnarounds that affected that operating rate. So 1% to 2% less, lower than last year is what we're seeing from an operating rate standpoint.

Michael Sison

Analyst, Wells Fargo Securities LLC

Great. Thank you.

Operator: Our next question comes from Matthew Blair with Tudor, Pickering, Holt. Matthew, please proceed.

Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Hey, good morning, everyone. On the last call, I think you talked about expectations for pretty strong volumes in the back half of 2019. And I just want to clarify is that still occurring? And it's just that pricing has come off or are you also seeing this week demand environment pressure your volumes as well?

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

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The demand environment that we based our second half outlook on when we had the conference call in August has not materialized. As I said to an answer in earlier question, sometime in September, we saw a pretty significant slowdown in demand pretty much across the chemicals portfolio. So, what is impacting us today is a combination of weaker demand and weaker pricing, some of which the pricing follows the demand obviously.

Matthew Blair Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Makes sense. And then slide 20 shows chlorine prices holding steady, but some of the derivatives like HCl and chlorinated organics are seeing price declines. Just hoping you could provide some commentary on this dynamic? And when this happens, are you able to adjust your production slate to I guess minimize some of the downside?

John E. Fischer

John E. Fischer

Analyst, Bank of America Merrill Lynch

Chairman, President & Chief Executive Officer, Olin Corp.

What I would say, on each of those, there's a discrete market around selling chlorine as a merchant product, selling chlorinated organics which is a global product and selling HCl which is North American product. And we do toggle back and forth across the entire portfolio which includes EDC, which includes epoxy resins according to where pricing is and where demand is for all three and that's kind of how we manage it. If you look at just the simple tradeoff in HCl for the last probably year or so has had pricing higher than the merchant chlorine market, we would favor making HCl versus merchant chlorine. Merchant chlorine has held relatively steady, that's positive and there might be a moment now where we would favor that over some chlorinated organics products.

Matthew Blair Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.	Q
Sounds good. Thanks.	
Operator: Our next question comes from Steve Byrne of Bank of America. Steve, please proceed.	
Stephen Byrne Analyst, Bank of America Merrill Lynch	Q

Yes. Thank you. Several of your large petrochemical peers do not provide specific earnings guidance just

reflecting the uncertainty in commodity pricing. Just would like to hear your view on your level of commitment to continuing the level of detail you provide.

That's something we evaluate on an annual basis and it varies. It has evolved over time. When we were a smaller company with - prior to the Dow acquisition, we had a different view there and we're doing something different

now than we did then, and it just continues to evolve.

Stephen Byrne

Okay. Fair enough. Thank you, John. I did want to ask you about your view of your competitors in epoxy resins. Do you have an estimate of what fraction of your epoxy resin competitors are back integrated into benzene and propylene, and how much of those raw materials do you have long-term supply agreements for?

Chairman, President & Chief Executive Officer, Olin Corp.



Pat D. Dawson

Executive Vice President & President-Epoxy & International, Olin Corp.

Yeah. So Steve, this is Pat. I mean, first of all, no one, none of the epoxy competitors are back integrated into the hydrocarbons, into benzene or propylene. So it's pretty clear. Quite frankly, very few of our competitors – actually only – I think we're the only one that's fully back integrated into chlor alkali. And we use both chlorine and caustic, a net liberator of caustic soda when we're making our epichlorohydrin. So, we have the best integrated position than anyone out there. And people like Huntsman have moved really downstream and are no longer really in the upstream or quite frankly in the midstream. So I hope that answers your question.

Stephen Byrne

Analyst, Bank of America Merrill Lynch

Yes. Thank you.

Operator: Our next question comes from Arun Viswanathan of RBC Capital. Arun, please proceed.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Great. Thanks. Good morning, guys. Yeah, I just wanted to ask back on the caustic price kind of evolution and outlook. So, I think going into Q4, the thought was that operating rates would come down on the chlorine side and that would support potentially some pricing on caustic. I guess what you're communicating is that did happen, but the demand in caustic has been materially weaker than the expected, and so we are in a little bit of a state of oversupply in caustic.

My question is assuming that the pricing doesn't necessarily go up in Q4, usually when we enter Q1 and Q2, we see a tick back up in operating rates and potentially that would further prevent pricing progress. So, is that kind of your base case for the progression over the next quarter or two that pricing will remain muted? And if so, is demand improvement in caustic the main driver of what's going to drive a slightly better caustic pricing environment?

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

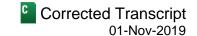
I would come back to start the basic issue for a chlor alkali producer is not necessarily the absolute demand for chlorine or caustic, but the demand for one relative to the other. So to answer your question we would have to make or establish the premise of what happens to chlorine demand. We are seeing, as I gave the example of a large chlorine customer not buying any chlorine for four weeks earlier this quarter, we are seeing chlorine demand slow down also. We talked about that as it related to chlorinated organics and some other things.

I don't know that we see clearly enough right now to know what's going to happen. I don't think chlorine demand is that much greater than caustic demand, it doesn't feel that way to us. And if we had a couple percentage point decline in operating rate more than what we see in the fourth quarter carrying over into the first quarter, you could see caustic prices move up somewhat. I think we're sort of on, what I'll call, the edge of balance and imbalance.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

And then just as a follow-up, so if you look at your three businesses, you've laid out the incremental improvement that could happen in Winchester relatively clearly, so we can understand that. I guess chlor alkali as you just



pointed out, it's going to depend on chlorine and caustic demand and assuming those are maybe driven by construction and industrial production. And then, I guess what about epoxy, I guess if you think about the drivers from here, you'd mentioned kind of a \$250 million level of normalized EBITDA in the past. Is there a path to that still that you can lay out in 2020 or 2021?

Pat D. Dawson

Executive Vice President & President-Epoxy & International, Olin Corp.

A

Yeah, I think – this is Pat again. Clearly, we're very confident that there's a path to \$250 million to \$300 million in epoxy and the real drivers to that is around the demand side, first of all and historically demand in epoxy has grown around 3%. I mean, this year, we see growth flat at best. Europe, the second largest epoxy market in the world, has been flat since the middle of 2018. So, no question we need to see that demand come back and this whole industrial funk that we have seen hitting us has really impacted the demand for epoxy. Certainly centered around what's happened in automotive, electronics and industrial coatings. So we need to see demand come back.

But as we outlined at the February investors discussion, you've got operating rates today in epi and liquid epoxy resins in the mid to high-80s. And so if we can just get some demand coming back, we think we're in a good position in our cost position and we think we're in a good position to grow and expand these margins through volume increases here over the next several years.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Okay, great. And then just lastly just wanted to come back to the idea of no new capacity. Again, it does appear that there are several players who are looking at building some extra chlorovinyls capacity here. There has been some installations of a lot of ethylene here. So just wondering at what point would you expect new capacity announcements? What is it going to take? Is it going to take a much better caustic pricing environment, some improved environment on the chlorine side and ethylene? And so I guess implicit in your assumption that there's not going to be much capacity built, would that also imply that pricing for these products is going to stay relatively muted? Thanks.

John E. Fischer

Chairman, President & Chief Executive Officer, Olin Corp.

A

I think the biggest two factors that you have to look at is what's the price of PVC and what's the price of caustic. And right now, neither of them are anywhere close to what it would take to justify a significant investment in the entire chlorovinyls chain at least through PVC and depending on who it is maybe through ethylene. And we showed a slide back in February that showed we're a long way from where re-investment economics are for those today.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Okay. Great. Thanks.

Operator: Our next question comes from John Roberts of UBS. John, please proceed.

John Roberts

Analyst, UBS Securities LLC

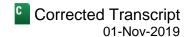
Thank you. Back on Lake City, a lot's been going on with ATK since its Orbital deal and then its Northrop Grumman deal. Did it become non-core for them, just trying to get a sense of how competitive the bidding was or what it was that allowed Olin to win this back after so many years?

John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.	A
John, to the best of my knowledge, ATK was not a bidder for the cor Dynamics and Northrop Grumman, and I think that Orbital business	
John Roberts Analyst, UBS Securities LLC	Q
Right, that's what I meant. The operator went to Orbital then to North then?	nrop Grumman, but they did bid to keep it
John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.	A
They did bid to keep it, yes.	
John Roberts Analyst, UBS Securities LLC	Q
Okay. And then do you think IMO 2020 could increase export caustic result in a little bit lower netbacks as we get into next year?	c and EDC freight costs here and maybe
James A. Varilek Executive Vice President & Chief Operating Officer, Olin Corp.	A
This is Jim. I wouldn't expect it to have a major impact. There may b small enough that we may have a hard time finding it. But we'll take going to be a big impact.	
John Roberts Analyst, UBS Securities LLC	Q
No, I was asking whether your freight costs would go up and therefo	re maybe the netbacks be a little bit lower?
James A. Varilek Executive Vice President & Chief Operating Officer, Olin Corp.	A
I don't think that's going to drive freight cost.	
John Roberts Analyst, UBS Securities LLC	Q
Okay. Thank you.	
Operator: Our next question comes from Travis Edwards of Goldm	an Sachs. Travis, please proceed.
Travis Edwards Analyst, Goldman Sachs & Co. LLC	Q

Hey. Good morning. Two quick questions or clarification from me. First on free cash flow next year, you provided a little bit of detail on some of the elements impacting that. But as you think about the upcoming ethylene payment to Dow, if you're generating cash, maybe buying back shares opportunistically, are you planning to address that payment just using cash on the balance sheet or are you thinking you'll have to pull down a bit on the revolver?

Todd A. Slater Chief Financial Officer & Vice President, Olin Corp.	\triangle	
I would say at this point we haven't given any guidance on what we intend to do there.		
Travis Edwards Analyst, Goldman Sachs & Co. LLC	Q	
Got it. Thank you. Second question is on the Lake City contract. You touched remarks, but again just a question of clarification. Is there any sort of sensitivit incremental EBITDA, is there any possible changes to the contract itself whet side between now and when you take over?	ty to that \$40 million to \$50 million o	
John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.	Д	
Well, the majority of that business is the government's business and they have had — our winning proposal, the prices that we bid were based on a set of volubuy. So I think that's a positive. There's an ability to use that facility commercial degree of probability because we've been in that commercial market for 150 y relatively small deviation around those numbers.	umes that they're sort of obligated to ally which I would tell you has a high	
Travis Edwards Analyst, Goldman Sachs & Co. LLC	C	
Got it. Congrats and many thanks		
John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.	A	
And we would have a lot of warning where there to be a change.		
Travis Edwards Analyst, Goldman Sachs & Co. LLC	Q	
Got it. Appreciate it. Thank you.		
Operator: As there are no further questions, this concludes our question-and to turn the conference back over to John Fischer for any closing remarks.	d-answer session. I would now like	
John E. Fischer Chairman, President & Chief Executive Officer, Olin Corp.		
Yes, thank you all for joining us today and we look forward to talking to you ag	gain when we review our fourth	

quarter 2019 results.



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

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